

JPRS-EEI-85-041

15 April 1985

# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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15 April 1985

## EAST EUROPE REPORT

### ECONOMIC AND INDUSTRIAL AFFAIRS

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ALBANIA

CONFLICT BETWEEN LIBERALISM, CONSERVATISM IN ECONOMIC POLICY

Vienna EUROPÄISCHE RUNDSCHAU in German No 1, Winter 1985 pp 105-130

[Article by Michael Kaser: "Albania Against 'Conservatism' and 'Liberalism'"]

[Text] Controlled from Above

At the parade on 1 May 1984 in Tirana, Stalin's portrait was carried along with those of Marx, Engels and Lenin; the parade slogan was "reinforce unity around the party and Comrade Enver." (1) In the first 1984 issue of the magazine published by the Planning Commission, Besnik Bektashi, deputy prime minister and Politburo candidate of the Albanian Workers Party, wrote the following:

The Leninist style of work, taught by Stalin, is the best medicine against indolence, routine, conservatism and servility as well as the motivation for revitalizing our thinking which forges ahead and expands our outlook!

In the sentence preceding the above, he linked Enver Hoxha with

The ceaseless struggle against the manifestations of bureaucracy, technocracy and liberalism, against the power of conformism and <sup>2</sup> narrow sectional, local or ministerial interpretations. (2)

The continuing loyalty to Stalin of the Albanian party leaders is easily explained in the light of political history, and this history also provides an adequate basis for opposition to "liberalism." The condemnation of "conservatism," on the other hand, is due to more recent events--the necessity to arouse innovation and entrepreneurial initiative in a conformist and egalitarian society which is virtually untouched by outside stimuli. No economic reform as discussed or carried out in other parts of Eastern Europe is currently on the agenda in Albania, but demographic pressure requires greater labor productivity or more trade--unless the standard of living is to drop.

The availability abroad of data on Albania is adversely affected by the same factors that obstruct the influx of information into the country. It is very hard indeed for the outside observer or occasional visitor (4) to look behind

the rhetoric of officials or the press, and to accurately perceive the development trends of the economic structure. Economic results are presented in a highly selective manner. The last comprehensive statistics appeared in 1979 with the heading "35 Years of Socialist Albania,"(5) though a new publication was expected on the occasion of the 40th anniversary of Albania's liberation, in other words in the course of 1984. The only more recent data are given in the speeches by the chairman of the State Planning Commission or the Minister of Finance at the time of the submission to the People's Assembly of the annual plan and annual budget.(6) While there are a few books and articles on the economic structure, the party or state documents dealt with in these are usually not published. The magazine issued by the Planning Commission regularly prints articles discussing the latest Plenum of the party Central Committee,(7) but nothing actually happening at the Plenum is ever published.(8)

Everybody knows the circumstances leading to Albania's present isolation. In 1948, at the time of Stalin's conflict with Tito, the leaders took Stalin's part but, in 1961, on the occasion of the Soviet-Chinese conflict, sided with China. The Chinese-Albanian dispute began in 1971 (caused by, among other factors, Hoxha's opposition to Mao's invitation to President Nixon to visit China) and the breach was complete in 1978. As long as Albania and China were allies, the changes in their political trends were remarkably similar. The "Cultural Revolution," launched by Mao in 1966, exploited a virulent populism for an attack on those who took the "capitalist approach." Hoxha's more modest "Cultural Revolution" adopted the same tenor in connection with "workers' control":

The attempts by some bureaucratic administrators to force the control by the "workers' commission" into a bureaucratic straitjacket in conformity with "instructions and rules" merely discloses their fear of the revolutionary elan of the masses.(9)

While Mao, with the backing of the Army, ruthlessly proceeded against the communist party and the intelligentsia in particular, Hoxha strengthened his faction in the party and fought the Army and the Ministry of Internal Affairs.

The dismissal and the subsequent violent death of four ministers revealed the data of political change and presumable challenges to Hoxha's supreme authority. Involved were Mehmet Shehu, chairman of the Council of Ministers, Beqir Balluku, minister of defense, Koci Theodhosi, minister of industry and mines, and Abdyl Kellezi, chairman of the State Planning Commission. Theodhosi and Kellezi were dismissed in December 1966, when "workers' control" was introduced but returned to office in December 1968 to carry out (in 1970) the reintroduction of the Soviet norm system (with slightly expanded local codetermination opportunities). The reinstated ministers began an opening for trade with the West, while Balluku tackled the resumption of political relations with China (in particular on the occasion of his visit to Beijing in November 1971). Balluku was dismissed in June 1974 and, soon after, executed for high treason. Theodhosi and Kellezi suffered the same fate in June 1975.(10) Their successors in the economic ministries promptly introduced a policy of extreme import substitution, in effect to this day,(11) while Shehu

carried out a massive military defense program in 1977.(12) In a speech on the occasion of the celebration of Army Day in July of that year, Shehu stated:

United States imperialism and Soviet social revisionism are the sources of the danger of war, but there are other hegemonic powers also, who fan the sparks of war.(13)

The other "hegemonic power" was China. The already poor bilateral relations subsequently worsened even more and hit bottom with the Chinese note of 7 July 1978 canceling economic aid and the Albanian party's reply of 29 July.

There was no indication that Hoxha opposed Shehu's defensive plan, according to which every centimeter of Albanian soil was to be defended against a potential aggressor: Ballaku had been accused that his plans provided for the defense forces to withdraw to the mountains and for the coastal plains to be abandoned to immediate occupation. Consequently immense quantities of scarce cement and large sections of the abundant Albanian labor force were employed in the construction of beehive shaped concrete bunkers in the plains. In his last speech before his death (still shrouded in secrecy), Shehu referred to the Eighth Party Congress, the 1981-1985 Five-Year Plan and stated that he was fulfilling

His duty in the sphere of defense...to take all the measures required to secure its further and comprehensive reinforcement and strengthen the combat readiness of the entire armed people, so that our socialist homeland should be able to resist and overcome any potential aggression by our imperialist and revisionist enemies.(14)

The Politburo met on 17 December 1981. Allegedly the agenda included the item "Albania's opening to the world." On this occasion, Hoxha and Shehu clashed, and Shehu is supposed to have committed suicide that same evening. According to Hoxha, there had been a plot against him, involving Prime Minister Shehu, Internal Minister Fecor Shehu, Defense Minister Kadri Hasbiu and Shehu's wife Fiqret. Soon all of them were dead, except for Fiqret and her sons who are reported to be in prison.(15) Though some reports described Shehu as advocating a foreign political opening, Hoxha seems to have revised the defense of every centimeter of soil after Kadri Hasbiu's execution, because addition of more small bunkers was evidently abandoned in 1983. In each year from 1977-1981, construction of these bunkers had cost about 2 percent of the net national product.(16) However, in 1984 defense spending rose steeply (Table 7), while new and larger bunkers were constructed!

After Hysni Kapo's death in September 1979, Shehu had become the senior party official after Hoxha. These two had been his loyal followers ever since being partisan leaders in the Peza Mountains in 1942. Hoxha appointed Ramiz Alia, now chairman, presidium, People's Assembly (and therefore head of state) to be his right hand and recently, at age 75, retired from routine duties and public appearances though keeping supreme authority.(17).

## An Isolated Economy

In 1976, at the apogee of the period of "self-sufficiency," a new constitution was proclaimed. This banned any borrowing from the capitalist world. In retrospect, this preserved Albania from the enormous foreign exchange debts now plaguing its neighbors, specially Yugoslavia and its former CEMA partners, in particular Poland and Romania. In view of the minimal dependence on foreign trade and the strictly controlled domestic prices, the inflation abroad has not affected the country. In this meaning, Shehu said at the Seventh (1981) Party Congress:

Albania is the only country worldwide without internal or external debts, without taxes, without inflation, without price rises and without unemployment. (18)

The break with China eliminated 50 percent of Albanian imports. Because borrowing was prohibited, the country needed to export to make up for at least some of the missing most important imports: In the 5 years 1976-1980 exports were 33 percent greater than in 1971-1975. (19) For 4 years (1979-1982), Albania benefited from the high world market prices of oil, but the OPEC price decrease of March 1983 and the subsequent poor market situation for oil products adversely affected its export earnings. In 1983, drought resulted in the temporary abandonment of electricity exports (see below). As Table 1 shows, this had the result that Albania began to call on supplier credits for its imports, but its total liabilities (except for those to Western banks) exactly matched its deposits with Western banks. Albania rarely borrowed from Western banks, and when it did, the amounts involved were lower than its own deposits there. In the years after 1984, we should expect Albania to prefer using its bank deposits rather than borrow; the intensive import cut campaign for 1984/1985 clearly shows that the state authorities do not really expect an upswing in export earnings.

Several Albanian export commodities are sold on spot markets (its oil regularly appears on the Rotterdam market), but as a rule the Ministry of Foreign Trade settles its transactions by way of bilateral trade agreements. As the details of the 1984 agreements show (Table 2), agreements with the CEMA member countries are concluded long before the beginning of the respective year. The earlier ones (with the GDR, CSSR and Bulgaria) are likely to be the most important, allowing the deliveries and purchases envisioned to be incorporated in the annual plan of the respective partner. No trade has taken place with the USSR for the past 20 years. Mongolia is the only other CEMA member country without a trade agreement with Albania. Agreements are in effect with Cuba and Vietnam as well as the East European countries. Albania has bilateral trade agreements with some capitalist countries. These are usually concluded after the beginning of the respective year. There are also substantial trade relations with countries with which Albania does not maintain diplomatic relations, such as the FRG, Great Britain and the United States.

In Table 2, an asterisk marks those trading partners who do not publish their imports and exports in trade with Albania. It is therefore impossible to



Table 1: Albanian Assets and Liabilities at Banks Reporting to the Bank for International Settlements

	(1) Aktiva	Millionen US-Dollar (2) Verbindlichkeiten	(3) Saldo
Dezember 1979	33	-	33
März 1980	43	8	35
Juni 1980	56	7	49
September 1980	63	1	62
Dezember 1980	68	-	68
März 1981	67	7	60
Juni 1981	72	2	72
September 1981	106	-	106
Dezember 1981	102	1	101
März 1982	88	2	86
Juni 1982	98	-	98
September 1982	83	7	76
Dezember 1982	88	-	88
März 1983	68	-	68
Juni 1983	45	4	41
September 1983	45	1	44
Dezember 1983	51	2	49
		(4) Handelskredite (nicht über Banken)	
Dezember 1982	-	4	-4
Juni 1983	-	49	-49

Key:

- |                |                                    |
|----------------|------------------------------------|
| 1. Assets      | 3. Balance                         |
| 2. Liabilities | 4. Trading credits (not via banks) |

Source: Bank for International Settlements (BIS), "International Banking Developments," Fourth Quarter 1983, Basel, April 1984, Tables 4 and 5; Organization for Economic Cooperation and Development (OECD), "Statistics on External Indebtedness," Basel and Paris, April 1984, Tables A and B, supplemented for 1981 by BIS, as before, Second Quarter and Fourth Quarter 1981.

to compile a complete survey of Albanian foreign trade from the statistics of its trading partners. Still, the current objectives emerge quite plainly from the Albanian press: A more emphatic campaign for cutting imports accompanied by the simultaneous (though less accented) campaign to encourage exports with the slogan "raise exports, lower imports." (20) Typical for this campaign for replacing imports was the report by the Korce Knitgood Combine which was permitted in 1984 to import sewing machines and spare parts to the value of

400,000 valuta leks, while only 200,000 valuta leks (\$28,000) were allocated to it in 1985.(21) On the occasion of a visit to this factory in 1983, the author was able to note the diverse origins of the equipment: He saw sewing machines of the type "Mauser Special" dating from before World War II (when the factory employed 300 workers to manufacture blouses and shirts, while its present labor force stands at 3,000), other machines originated in China, the FRG and Italy. Though I was told that all spare parts were now being produced in the combine's own workshops, the capacity of the combine would be seriously impaired in case of severe import cuts.(22) Awareness of these limits was expressed in an editorial in summer 1984. This called for import quotas to be set on a "realistic and scientific basis,"(23) a demand which is presumably aimed at imports from the West.

Import cuts might have specially serious effects as a consequence of the decline in revenues from electricity exports to Yugoslavia. Deliveries from hydroelectric plants ceased when drought reduced the volume of water. They did not resume until late December.(24) Qirjako Mihali, minister of finance at the time, admitted the seriousness of the situation:

Despite the deficit in electricity output by our hydroelectric plants and the difficulties arising therefrom, another rise in industrial output was recorded in 1983.(25)

Neither he nor any other speaker mentioned a concrete percentage figure of total industrial output growth that year, and he restricted his explanations to increases in selected industries. As he did not report the projected growths of industrial production for 1984 either, the outlook for a successful import replacement program appears rather poor: The current five-year plan projected an expansion of machine and plant production by 43-45 percent.

Table 2: Albania's Bilateral Trade Agreements in 1984

CEMA Countries		Capitalist Countries	
Bulgaria	September 1983	Belgium	November 1983
Cuba*	November 1983	France	June 1984
CSSR	October 1983	Greece	January 1984
GDR*	September 1983	Italy	March 1984
Hungary	November 1983	Netherlands	April 1984
Poland	November 1983	Turkey	February 1984
Romania	November 1983		
Vietnam*	January 1984		

\* Trading partners who do not publish their goods traffic with Albania

Sources: BBC Summary of World Broadcasts, Part 2, Weekly Economic Report, 29 Sep 1983, p A2; 20 Oct 1983, p A3; 27 Oct 1983, p A2; 3 Nov 1983, p A4; 10 Nov 1983, p A3; 17 Nov 1983, p A4; 1 Dec 1983, p A3; 26 Jan 1984, p A1; 1 Mar 1984, p A1; 29 Mar 1984, p A1; 19 Apr 1984, p 1 and 7 Jun 1984, p A4.



On the other hand, greater opportunities arise for foreign trade by the development of new transportation facilities. Ferry service between Trieste and Durres began in December 1983, another such service is to link Otranto with Durres in 1984. Air service from Bari to Tirana is also likely to be resumed.(26) More important yet will be the rail connection to the general European rail network between Shkoder and Titograd: Total length 64 km; the section located in Albania (40 km) is to be completed in 1984,(27), the remaining Yugoslavian section in 1985 (it is reported in Yugoslavia that the route will carry 1.1 million tons freight per annum).(28) The 35 km section from Fier to Vlore, to be completed in 1984,(29) will provide a connection to Albania's two main ports (Durres was the first Albanian city to obtain a rail connection in 1946) and most of its other industrial centers.(30)

The drafting and implementation of plans in the sphere of foreign trade continues to be largely centralized. The Ministry of Foreign Trade itself draws up the plan target for imports and exports as well as for the balance of payments (by currency zones, countries or bilateral clearing partners), submits proposals for raising exports and issues instructions on the avoidance of superfluous imports.(31)

In conformity with the well-known Soviet model, the foreign trade enterprises carry out all foreign trade transactions and supervise them in the minutest detail.(32) There are six foreign trade enterprises for commodities (Agroeksport, Industrialeksport, Mineraleksport, Albimport, Makinaimport and Metalimport) and five service enterprises (Albkontrol, Transhkip, Albturnist, and Drejtbanka), as well as two other agencies authorized to pursue foreign trade (publishing and movies).(33) The two enterprises currently enjoying priority are Agroeksport (for exports of industrial crops) and Mineraleksport.(34) The latter organization is also competent for the transmission of electricity. This year this is to go to Yugoslavia as planned, because it was reported that the shares allocated to household and municipal consumption had been exceeded in the first months of the year.(35)

Machine imports were indirectly praised in a study published in early 1984 and including the indices cited in Table 3. Though only the 1981-1985 plan was actually quoted, the parallel strategy is quite obvious--first the expansion of the output of domestic machine and plant factories to the manufacture of plant to replace imports over and above the targets set in 1962 (when imports from the USSR ceased), that is the production of spare parts for imported machines; second the reduction in dependence on foreign plant to less than half the volume at the peak of imports from China, 1971-1975.(36) In the 1970's, the production of spare parts always equaled that of the output of machines and plant,(37) and by 1980, 95 percent of spare part needs were satisfied by domestic production.(38)

Neither foreign trade pricing nor the foreign exchange system were altered. Both respond to the classic price equalization: The 1981 Planning Manual reports that the State Bank carries out settlements with the foreign trade enterprises in valuta leks but those with Albanian partners in domestic leks.(39) Foreign trade profits are calculated from the surplus in domestic

leks in terms of the valuta lek costs of imports compared with the valuta lek revenues from exports.(40)

### The Management of Industry

At factory level, the Soviet Techpromfinplan continues to be the basis of operations--the technical-industrial and financial plan incorporates eight indices: The production plan, the productivity plan, the manpower and wage plan, the plan for technical materials supplies and the distribution of production, the plan for technical progress and scientific research, the cost plan, the investment and plant construction plan, and the finance plan.(41)

According to the principle of "individual management," the director above all must carry out his duties, is responsible to the entire collective and the superior organs with regard to economic and social activities, and must accomplish the tasks assigned as per the directives and decisions of the party and state organs. Secondly he must make sure that the instructions by the factory management needed for these tasks are carried out; he must ensure the discipline of all workers at their jobs as well as supervise everybody and everything...While proceeding with production, the enterprise is obligated to apply the directives issued by the central authorities with regard to the use of the socialist accumulation fund as well as the directives on the organization of wage scales.(42)

After the 1966 break caused by the "workers' control," the resumption of the strict observation of classic Soviet practice proceeded gradually--the 1981 manual from which these quotations are taken, begins with Stalin's "basic economic law of socialism." In 1970, the role of the mass meeting for the drafting of the annual enterprise plan was reduced to the drafting of a plan proposal which was forwarded to the State Planning Commission via the competent ministry or the local executive committee (depending on whether the enterprise involved was a "central" or "local" enterprise). Implementation was left to "individual management," a term introduced at the time as a compromise to replace the term "one-man management," derived from Soviet terminology.(43) The shift of responsibility from central to local administration (the number of enterprises subordinated to local executive committees rose from 40 percent in 1969 to 80 percent in 1971)(44) also represented a compromise to the extent that it was suitable after the displacement of the workers' committees to serve as an alternative base for employees not involved in the management of the enterprise. A plan proposal is still submitted to an enterprise mass meeting; the plan proposal for 1985 was discussed in May 1984.

From 1977 on, the local authorities were stripped of their influence on industry, and the 1981 manual no longer even mentions them. Still, according to other up-to-date sources, they still manage some enterprises.(45) In March 1973, the Central Committee Plenum decided for the introduction of "rigorous planning" for a "uniform state plan on the allocation of material and technical requirements" and the enforcement of "contract loyalty between

enterprises."(46) In 1983, the State Planning Commission drafted more than 200 materials use plans, and the Council of Ministers ratified them. The so-called "list of priorities" of imports is compiled for the Ministry of Foreign Trade on this central level of supply planning.(47) Among the examples of a recently tightened input control is the statement made at a 1982 conference, that deliveries of motor fuel were 12 percent, heating oil 16 percent and coal 6 percent below the annual plan.(48)

This conference "of management forces on the improvement of the efficiency of social production" was the first of two conferences intended to review the economy as a whole halfway through the current five-year plan. It was opened by Besnik Bektashi whose seniority and rank in the party secretariat coupled with responsibility for the economy has already been mentioned, and closed by Adil Carcani, chairman of the Council of Ministers. The latter called for a review of labor norms to make sure that they responded to the various enterprises. He regretted that 21 percent of workers in the energy industry had failed to meet their 1982 norms, while 11 percent had surpassed them by more than 10 percent. He also said that a lesser raw materials consumption per production unit would result in a substantial improvement in economic efficiency.(49) Bektashi's address appears not to have been published, but an article written by him and printed in early 1984 lists three objectives. To begin with, it would be better to apply science and technology rather than "empiricism and rules of thumb," secondly it was imperative to raise the rate of accumulation--in 1984, 280 economic and sociocultural projects were in the development stage (however, the 1983 plan had not been fulfilled as shown in Table 4); and, thirdly, greater attention needed to be devoted to "strict supervision and discipline."(50)

The second important conference, meeting in Tirana in April 1983, dealt with issues of the national economy's development in the next and Seventh Five-Year Plan. It was opened by Ramiz Alia, chairman, presidium, People's Assembly, and closed by Enver Hoxha's wife Nexhmije who is head of the Institute for Marxism-Leninism. While Alia dealt with a broad range of topics--especially in connection with the preparations for the Eighth Five-Year Plan (1986-1990)--, he referred in particular to the necessity of the more intensive use of agricultural land.(51)

Table 3: Albania's Production and Imports of Machine Construction Goods  
Index: 1971-1975 = 100

	1976-1980	1981-1985 Plan
Production	156.0	245.6
Imports	83.1	45.0

Source: R. Laperi, "The Metal Construction Industry on the Way to Conversion to a Machine Construction Industry," PROBLEME EKONOMIKE, No 1/1984, p 61.

**Table 4: Albania's Plans and Plan Fulfillment  
Annual Increases as Percentages**

	(1) Fünfjahresplan				(2) Jahrespläne					
	1981-1985		1981		1982		1983		1984	
	Min.	Max.	Plan	real	Plan	real	Plan	real	Plan	
(3) Bruttosozialprodukt	6,0	6,3	7,6	5,6	9,6	4,4	8,1	..	..	
(4) Produziertes										
Nettomaterialprodukt	6,2	6,5	8,9	..	9,0	4,5	8,3	..	..	
(5) Gesamtindustrie-										
produktion	6,3	6,7	7,2	6,5	8,5	4,7	6,2	..	8,5 <sup>a</sup>	
(6) Gesamte Landwirt-										
schaftsproduktion	5,4 <sup>b</sup>	5,7 <sup>b</sup>	13,1	7,2	15,2	5,0	17,0	9,0	14,7	
(7) Investitionen	4,1 <sup>b</sup>	4,4 <sup>b</sup>	5,8	..	10,6	..	14,8	4,0	3,6	
(8) Frachtverkehr (t/km)	6,0	6,3	..	..	9,4	6,1	..	5,1	..	
(9) Arbeitsproduktivität:	2,5	2,8	3,2	3,2	..	..	2,5	..	5,1	
(10) - in der Industrie	2,7	3,0	1,7	3,0	..	..	2,8	..	4,5	
(11) - in der Bauwirtschaft	4,1	4,4	..	3,0	4,9	..	7,3	6,0	6,2	
(12) Einzelhandelsumsätze	9,6	9,9	..	..	16,9	..	16,5	..	21,4	
Exporte	9,3	9,6	..	..	16,9	..	..	..	..	
Importe					16,9	..				

(13) a Davon Konsumgüter 6,4.

(14) b Fünfjahresdurchschnitt im Vergleich mit 1976 in Jahresraten.

**Key:**

- |                                  |   |
|----------------------------------|---|
| 1. Five-year plan                | 8. Freight traffic (ton/km)                             |
| 2. Annual plans                  | 9. Labor productivity                                   |
| 3. Gross national product        | 10. in Industry   |
| 4. Produced net material product | 11. in Construction                                     |
| 5. Total industrial output       | 12. Retail trade turnovers                              |
| 6. Total farm output             | 13. a: consumer goods 6.4                               |
| 7. Investments                   | 14. 5-year average compared with<br>1976 (annual rates) |

Source: On the plan ZERI I POPULLIT, 6 Nov 1981, and PROBLEME EKONOMIKE, first issue each year; on real achievement ZERI I POPULLIT, reports on the budget meetings of the People's Assembly (for 1983, see issue of 27 Dec 1983, which also printed the plans for consumer goods production and retail trade turnovers).

Agriculture will be dealt with in the next section. It achieved positive growth in 1983 (see Table 4), while industry is very unlikely to be able to claim this. In his report for the year, the Minister of Finance did not mention any output growth, and Bekteshi spoke only of increases in the gross national product and agriculture. (52) As Table 4 shows, not a single heading



(though recording some real growth) managed to achieve the plan target. The electricity shortage, the evident cut in oil deliveries and the cut-backs of imports of replacement parts made the fulfillment of the five-year plan targets virtually impossible. Assuming that industrial output did not decline in 1983, the accumulation of annual growth figures shows that the 1984 plan--if fulfilled--would raise output by only 16 percent above the 1980 level. This must be set against the 36-38 percent target projected in the five-year plan for 1985 or the 34-36 percent planned in the original draft but rejected by the Eighth Party Congress.

Two sectors of industry enjoyed special attention: The metal construction industry and the chemical industry. The attitude to metal construction has already been mentioned. As Table 5 demonstrates, employment in this industry has risen rapidly since the break with the USSR, and by 1982 an extensive training program had ensured that 37 percent of its employees could be classified as skilled workers, another 3 percent as engineers. Productivity grew very quickly in the first 20 years. Based on the indices of employment and production as per Table 6, gross per capita output more than tripled in 1960-1970 and almost doubled in 1970-1980. However, this trend seems to have slackened in 1980-1982. Table 6 records that productivity in these 2 years rose by only 2.9 percent. One reason for this may well be the wearing out of equipment (or the lack of replacement parts), which had been installed at the time of the alliance with China. As the quality of Chinese products in those turbulent years was probably not the best, downtime and production stoppages are probably achieving serious dimensions by now. The urgent need for replacement parts and compatible replacement machines is likely to have been one of the reasons for the resumption of trade with China in 1983 and the indications of a Sino-Albanian rapprochement in 1984. The slogans issued for 1 May 1983 still included the words "long live the party, the resolute fighter against all types of opportunism and revisionism; against Soviet, Yugoslav, Chinese and Eurocommunism." The same slogan appeared in 1984, but the word "Chinese" was missing!

Table 5: Employees in the Albanian Machine Construction Industry

	1960	(1) Zahl der Beschäftigten		1982
		1970	1980	
(2) Arbeiter	18.389	26.950	41.683	45.925
(3) Ausgebildete Mechaniker	2.633	8.791	20.861	28.396
(4) Ingenieure	643	1.279	2.402	2.684
(5) Insgesamt	21.666	37.020	64.946	77.005

Key:

- |                        |              |
|------------------------|--------------|
| 1. Number of employees | 4. Engineers |
| 2. Workers             | 5. Total     |
| 3. Skilled workers     |              |

Source: R. Laperi, "The Metal Industry on the Way to Conversion to a Machine Construction Industry," PROBLEME EKONOMIKE, No 1/1984, p 61.

Table 6: Production and Employment in the Albanian Machine Construction Industry (Indices: First year of the period = 100)

	1960-1970	1970-1980	1980-1982
Production	533.3	337.0	122.0
Employment	170.9	175.4	118.6

Source: 1960-1970 output from "35 Years...", p 53, 1970-1980 as well as 1980-1982 from PROBLEME EKONOMIKE, No 1/1984, p 55; employment from Table 5.

The same replacement part problem haunts the chemical industry which, just like the machine construction industry, was equipped mainly with Chinese plant. The industry was subjected to criticism in 1983, in particular for insufficient capacity utilization. The directorate for chemicals in the Ministry of Industry and Mines appears to have rightly diagnosed the reason when, according to some reports, it referred to the poor state of the technical plant and the inadequate imports. The party newspaper brushed these arguments aside, saying

The plan has not been systematically fulfilled even with respect to those products which do not require imported commodities...The party has called on the chemical industry to tackle the practical task of coping with its arrears...Change can be accomplished only by the communist masses...who, by their example and their labors, mobilize cadres, specialists and workers.(53)

#### Material Incentives and Financial Equilibrium

The foregoing quotation is typical for the past 20 years: It appeals to the conscience of the party and sounds a moral trumpet call for raising output. An "open letter" from the party Central Committee in March 1966 launched the most extreme egalitarianism ever enforced as national policy in a European country. A decree of April 1967 cut all salaries exceeding 1,200 leks per month; another decree of April 1976 dropped the lower limit of high salaries to 900 leks per month and provided for cutting all those above that amount. The abolition of income tax, also in 1967, resulted in a rise in net wages, and it was claimed in 1973 that the upper salary groups received only about twice the average wage.(54) However, neither the relevant directives nor their implementation are particularly clear: Salaries above 900 leks are permissible, and the average wage appears to hover around 450 leks. Schnytzer who visited Albania in 1975, learned that the average wage was about 550 leks. On the occasion of a visit to factories and farms, we were given the following figures:

#### Wages in Leks per Month

State farms:	Workers	450	Director	800
Schools:	Young teachers	520	Principal	800
Factories:	Average wage	600	Management	1,000



Though there is little scope for incentives in such a narrow range, there are various wage scales. Those in effect now were established in 1976 and consist of three to six grades. Each higher grade involves 4-12 percent higher wages than the one directly below it.(55) Six 12 percent raises effect only a ratio of 1:2 between the highest and the lowest wage. However, since some base rates are higher than others, the maximum "vertical" ratio is officially described as 1: 2.5 , the so-called "horizontal" ratio accounts for extra pay for specially hard labor or specific locations. It ranges from 1: 1.66 to 1.233. Administrative personnel, technicians and engineers have an 11-grade wage scale. Here raises amount to 5-10 percent respectively, indicating a maximum 1: 2.9 differential between the highest and lowest income. Wage scale differences within the various industries do not seem to amount to much--in mining the ratio is 1: 2.85, but for chromium mining 1: 2.80.(56)

Within the framework of the revised labor code, new wage criteria were introduced in June 1980. Shehu described this as follows at the Eighth Party Congress of June 1980:

Greater stress must be laid on the implementation of the measures lately introduced to make wages dependent on quantity, quality and production costs in economic enterprises and farm cooperatives.(57)

The relevant implementing regulations were introduced in the course of 1981 in industry, construction and telecommunications.(58) In one of the factories we inspected in 1983, the average wage of 600 leks per month was paid upon fulfillment of the plan.

The "special fund for enterprises" (fond te vecante te ndermarrjes) receives allocations from enterprise profits as per the finance plan. It may not amount to less than 1 percent of total wages and salaries paid nor to more than 2 percent, always provided that specific enterprise targets are met. In enterprises paying their employees time wages, 60 percent of this fund must be spent for special purposes (sports, nursery schools, emergency assistance, and so on); in factories paying piece work rates, the proportion is 30-70 percent.(59) The small amounts involved by comparison with total wages and salaries paid means that the incentive provided by it tends to be rather minor.

Moreover, neither stores nor service facilities offer much in the way of incentives for workers to labor more strenuously. Albania has resumed the method cultivated in the USSR in Stalin's time by which general productivity improvements were passed on to households by way of price reductions for consumer goods (in the USSR, Khrushchev replaced this method by wage raises, Brezhnev by reducing wage differentials). Retail prices were lowered 13 times in the period 1950-1969, not once in the 1970's.(60) The procedure was resumed in the 1980's, and prices were reduced in 1982 and 1983.

The spread of incomes is so small that the mixed shopping basket is much the same in all non-farm households. As a result, the central finance agencies need not change prices to produce the microeconomic financial equilibrium by using price flexibility with respect to incomes. They merely need to achieve

a macroeconomic equilibrium to make sure that the projected purchasing power--as generated by wages--corresponds to the projected output of wage commodities and services at fixed prices. In this connection savings must be taken into account just as much as the spending and revenues of cooperative farms. As the wage scales are largely static, only two factors are likely to effect change--wage shifts and urbanization. Among the wage shifts are increases in total wages and salaries paid consequent on a rise in the percentage of skilled workers employed (this is happening in machine construction--see Table 5) and increases in the proportion of higher paid professional groups (for example, the mining industry, ranking first on the wage scale, evidently increased its relative proportion of employment at the expense of the food industry, among others). The trend described as urbanization reflects both the rise in manpower not employed in farming and the monetarization of the entire sector, from self-supplying households to modern city dwellers. The urban population almost doubled from 1960 to 1980, rising from 499,000 to 898,000. At the same time the figures of wage earners more than doubled in the period 1960-1978, rising from 202,000 to 584,000. At the present time an effort is being made to keep this percentage steady (61). Monetarization is demonstrated by the fact that care was taken in this same period to ensure that each Albanian village boasts at least one store and is supplied with electricity.

#### Public Finances

The most important tools to secure the macroeconomic equilibrium of budget transactions are control of wages by the state enterprises in conformity with requirements and price fixing in state stores and service facilities, also in conformity with the plan. As explained earlier, the state budget, set out in detail in Table 7, represents the monetary link between this balance and those of the enterprise finance plans.

Since personal taxes were abolished in 1967 (this budget heading was eliminated in 1970), most public revenues are furnished by state enterprises and cooperatives--mostly in the form of a turnover tax and profit taxes: In the 1981 budget they accounted for 96 percent of all revenues, more than ever before.(62) Spending is classified as per the Soviet system: The most notable divergences show up in the planned defense spending which achieved its highest status in 1980 and 1981 in the shape of the program of total territorial defense. Most likely Shehu's death explains the decline in 1982 and 1983. The latest increase in the 1984 budget is probably due to the general deterioration in East-West relations.

Control of the financial apparatus lies with the Ministry of Finance, which provides for the implementation of very detailed and exact measures through the so-called Directorate for Financial Control and Inspection (Drejtoria e Kontroll revizionit financiar). This body works in close cooperation with the State Bank, whose figures are subject to auditing by the Directorate. Each ministry has a directorate of finance and accounting that works with the Ministry of Finance, the finance and accounting offices of individual firms and "business departments" of agricultural cooperatives. "Money circulation in our country is planned and centralized" as a study carried out in 1981 shows.

The projected revenue surplus has long been around 50 million leks, but real final budget accounts show a lesser amount, for instance 26.8 million leks in 1982. Allegedly this surplus is used to meet the costs of retail price reductions which, as mentioned earlier, were resumed in 1982.

A commentary on the notification of 1983 cuts said that the countervalue of the 17 million leks--the cost of reducing drug prices and distributing antituberculosis drugs free of charge (at the time only prescriptions of all kinds for infants up to the age of 1 were free of charge)--would be paid from state reserve funds.(64) This means that the revenue shortfall of the turnover tax paid by the chemical industry or the increase in subsidies allotted this industry would claim part of the budget surplus.

Table 7: Albania's Budget (million leks)

(1)	Einnahmen:	1978	1979	1980	1981	1982	1983	1984
(2)	Staatsbetriebe, Kooperativen und Institutionen	6.801	7.157	7.346	7.580	7.823	8.022	8.804
(3)	Aus anderen Dienstleistungen	999	646	654	620	727	778	386
(4)	Insgesamt	7.800	7.800	8.000	8.200	8.550	8.880	9.200
(5)	Ausgaben:							
(6)	Wirtschaft	4.868	4.760	4.821	4.866	4.792	5.031	5.062
(7)	Soziales und Kulturelles	1.749	1.826	1.919	1.982	2.254	2.290	2.401
(8)	Verteidigung	885	915	940	940	935	910	1.010
(9)	Verwaltung	97	101	118	126	141	146	144
(10)	Verschiedenes	101	136	152	236	378	373	533
(11)	Insgesamt	7.700	7.750	7.950	8.150	8.500	8.750	9.150
(12)	Überschuß	100	50	50	50	50	50	50

Key:

- |  |                                |
|--|--------------------------------|
| 1. Revenues  | 7. Social and cultural affairs |
| 2. State enterprises, cooperatives<br>and institutions | 8. Defense                     |
| 3. From other services                                 | 9. Administration              |
| 4. Total   | 10. Miscellaneous              |
| 5. Expenditure   | 11. Total                      |
| 6. Economy   | 12. Surplus                    |

Note: These are all plan figures; with the exception of 1978, no actual results have been published, merely total revenues (8,504 million leks in 1982) and total expenditure (8.476 million leks in 1982).

Source: PROBLEME EKONOMIKE, first issue of each year

If Soviet methods are followed, another possibility for using budget surpluses consists in employing them to limit the credit expansion of the State Bank. Not even totals of these credits are published, but an index of their values was issued (Table 8). It quite accurately follows the trend of budget resources for the economy, which represent the main source of bank credits. The balance sheet (credit plan) of the two Albanian banks shows the allocation of state money to the banks (Table 9). The Agricultural Bank, established in 1970 and given wider powers in 1977,(65) is a subsidiary of the Albanian State Bank which partly finances it. However, the Agricultural Bank has its own income and credit structure. Budget transactions appear in the account as

deposits in the Savings Bank (not considered an independent agency), and these deposits represent an input of purchasing power in the budget revenue and spending balance (Table 10). Still, the study from which we took Tables 8-10 does not reveal whether these savings deposits are voluntary or represent frustrated or delayed purchases. In the list in Table 10, the source takes into account surpluses or arrears of purchasing power (not shown in the table). The long lines of people waiting to buy various commodities demonstrate the "economy of shortages." Other commodities are altogether unobtainable (in March 1983, wine and chocolate were among the almost unobtainable luxury goods, though they were offered by the sales personnel as a friendly gesture--provided the customer was a foreigner). As noted above, the narrow range of incomes and planned income restrictions generally demonstrate the modification of the symptoms of suppressed inflation. The complete abolition of the market of rural production cooperatives also eliminated the indicator of shortfalls in state stores for agricultural products

Table 8: Bank Credits in Albania

	1950	1960	1970	1980
(1) Budgetzuweisung unter dem Titel »Wirtschaft« (Index 1950 = 1)	1	5	12	21
(2) Bankkredite insgesamt (Index 1950 = 1)	1	6	13	23
(3) Kreditverteilung in Prozent:				
(4) Industrie	14,6	29,3	27,4	35,4
(5) Bauwirtschaft	2,6	4,6	2,3	4,4
(6) Landwirtschaft	2,3	5,6	10,1	17,7
(7) Handel	62,3	44,6	48,8	28,2
(8) Andere	18,2	11,4	11,4	14,3

Key:

- |   |                 |
|---|-----------------|
| 1. Budget allocation under the heading "the economy" (index 1950 = 1) | 4. Industry     |
| 2. Total bank credits (index 1950 = 1)                                | 5. Construction |
| 3. Percentage credit allocation:                                      | 6. Agriculture  |
|   | 7. Trade        |
|   | 8. Other        |

Source: Budget allocations from "35 Years...", p 136 (1950-1970) and Table 7 (1980); total bank credits from PROBLEME EKONOMIKE, No 3/1982, p 124, distribution from K. Postoli, "Bankat dhe Vepremitaria e Tyre ne Shqiperine Socialiste," Tirana 1981, p 13.



Table 9\*: The Credit Plan of the Albanian Banks

Origin	Utilization
<b>I. Albanian State Bank</b>	
1. Moneys of the Albanian State Bank	1. Short-term loans to enterprises
2. Deposits by enterprises, institutions and savings banks	2. Long-term loans to individuals for urban housing construction
3. Moneys from the state budget	
<b>Total</b>	<b>Total</b>
<b>II. Agricultural Bank</b>	
1. Moneys of the Agricultural Bank	1. Short-term loans
2. Deposits by enterprises and institutions of the farm sector and agricultural producer cooperatives	a) to enterprises
3. Financial resources from the state budget	b) to agricultural producer cooperatives
4. Moneys from the Albanian State Bank	2. Long-term loans
	a) to agricultural producer cooperatives for the respective year
	b) To individuals for rural housing construction
<b>Total</b>	<b>Total</b>

Source: Postoli, op. cit. , pp 59-66.

\* Albania did not publish the relevant figures

### Strict State Controls in Agriculture

The total exclusion of private trade proceeded simultaneously with the reduction in the dimensions of privately used land in the agricultural cooperatives and the ongoing transfer of the latter to forms classified as being "of a more advanced type," which are hardly different from state farms. As a consequence, agriculture is under much stricter control now and private enterprise excluded more rigorously than in any other country. While private initiative is encouraged in other parts of the communist world--the "system of responsibility" in China, the Gorbachov reforms in the USSR, the flourishing cooperation between private and collective farming in Hungary--, the trend in Albania is in a diametrically opposed direction.

The rules for an "agricultural producer cooperative of a more advanced type" were published in a decree dated 15 July 1971.(66) In his report to the Seventh Party Congress (1976), Hoxha explained that producer cooperatives of a more advanced type accounted for 23 percent of agricultural land and produced 25 percent of the grain cultivated by producer cooperatives,(67) but neither

he nor Shehu supplied further statistics in their reports to the Eighth Party Congress (1981).

Table 10\*: Balance of Household Income and Expenditure in Albania

Income	Expenditure
1. Wages and Salaries	A. First hand commodity sales
2. Payments to farmers in agricultural producer cooperatives	1. State trade
3. Social insurance contributions	2. Trade by agricultural producer cooperatives
4. Allocations and aid from the state budget	B. Expenditure (excluding trade)
5. Income from state sales in the collective sector	1. Various services
6. Others	2. Savings deposits
	3. Other expenditure (excluding trade)
Total	Total

Source: Postoli, op. cit., pp 45-46

\* Albania did not publish the relevant figures

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Hoxha explained that this three-stage plan (from agricultural cooperative via the more advanced type to the state farm) continued to be pursued.

Work continues on consolidating the cooperatives of a more advanced type, some of which are being converted to state farms. This will also provide experience for the future. More cooperatives of the more advanced type will be set up in the plains. Some cooperatives in the hilly and mountainous regions will probably also be converted to cooperatives of the more advanced type, depending on their development and state possibilities.(68)

He drew a political comparison, claiming that "in the USSR and elsewhere, the types of collective capitalism prevailing nowadays largely equate types of actual private ownership."(69)

Farmers in agricultural cooperatives now may hold private land amounting to no more than 200 square meters (maximum) per household and are pressured to hand their livestock over to the cooperative. At the Eighth Congress, Hoxha said that

The Central Committee approves the revolutionary initiatives of the peasantry for the further reduction of private land in the cooperatives and for the establishment of communal herds from the personal livestock of the members.(70)



However, at the same congress, Shehu warned

We must heed the very important and responsible tasks arising from the establishment of communal herds from the personal livestock of the cooperatives...They (the cooperatives) must adopt all the measures necessary to guarantee the feeding and housing of this livestock, so that livestock output is not merely maintained but actually raised...the families in the cooperatives must be guaranteed regular supplies of milk and other animal products during the entire year.(71)

The dimensions of the transfer of livestock are revealed in Shehu's statement, according to which all once privately held sheep and goats had been handed over by December 1981 as well as all privately held cows in the plains:(72) In other words, cattle was privately owned in the mountains only. Actually there are no markets where the farmers might be able to sell their products, and all privately produced products must be sold to the cooperative at the official price.

The campaign for the cultivation of industrial crops presumably limits the ability of agricultural cooperatives to make available to their members food in replacement of the foodstuffs earlier produced on their private land. Some of the projected increase in industrial crops is to be achieved by more intensive cultivation, but the yield increases planned for 1984, for example, would be conceivable only if 1983 had been disastrously bad: The authorities talk of 76 percent growth for cotton, 49 percent for tobacco, 11 percent for soybeans and 9 percent for sugar beet.(73)

The extent of Albania's reliance on its agriculture is evident in the statement according to which nine tenths of personal consumption in 1981 had been farm products, and that agriculture supplies 90 percent of raw materials for the textile, footwear and food processing industries as well as 25 percent of exports.(74)

Albania is very largely a producer of primary goods. This is underlined by the fact that 87-90 percent of the raw materials input of the national product are of domestic origin.(75) A 1984 article by a member of the Committee for Prices and Standards reveals that lower prices are paid for farm products not up to standard, and that goes for the domestic market as well as for exports.(76)

Farming's share in the net materials product is declining--from 76.3 percent in 1950 to 44.4 percent in 1960 and 37.9 percent in 1978 (77). The ratio of farming to industry was 49.1: 50.9 in 1960; but in 1980, was 31.1: 68.7 (78) Yield (in absolute figures) has risen, but at this time virtually all cultivable land is in production--following 20 years of painstaking terrassing of hills, the cultivation of the highlands and the drainage and irrigation of the plains. The marginal land now under cultivation (olives, vines and fruit trees were planted on the new terrasses to free the land in the plains for the cultivation of field crops) is so poor that the main effort now is for "intensification." In 1983, Minister of Agriculture Themie Thomai published a

seven-point program for the intensification of agriculture with the subtitle "The Permanent Main Approach to the Development of Agricultural Production." (79)

This is obviously the best method for profitably employing Albania's manpower surplus in the situation of isolation. Emigration (to the Albanians in Yugoslav Kossovo) is strictly prohibited, and the rate of population growth among Albanians in Albania as well as Albanians in Kossovo is among the highest in Europe. Ruled by a fiercely nationalist and isolationist government, Albania will ultimately be able to feed itself only by producing more food per hectare. Moreover, since farm produce accounts for 25 percent of exports, additional quantities need to be produced for domestic consumption.

The birth rate is extremely high even in the average of urban and rural areas--in 1978 Albania had 27.5 birth per 1,000, compared with 38.5 in 1950--while mortality was greatly reduced, to 6.3 per thousand in 1978 compared with 14.0 in 1950 (this is also reflected in the rising life expectation for newborns, 68.6 years in 1976/1977 compared with 53.5 in 1950/1951). (80) The latter is specially evident in the rural areas: In 1956-1960 the ratio of rural and urban rates of mortality was 1 : 175 (12.1 per thousand compared with 6.9), by 1976-1980 it amounted to only 1 : 1.123 (7.0 per thousand compared with 5.8). At the present time the rural birth rate is so great that the natural increase is generally greater than 20 years ago. Table 11 shows the districts according to the extent of urbanization. Those with a large percentage of urban population displayed declines in the rate of population growth, while those with a large percentage of rural residents revealed increases. In rural areas, the labor force will grow by 210,000 in the years 1981-1985. (81)

At the Eighth Party Congress, Enver Hoxha stated:

The employment of this new manpower requires extensive studies by the State Planning Commission, the State Committee for Labor and Wages, the other central departments, the executive committees of the People's Councils in the districts, the enterprises and agricultural cooperatives. (82)

In view of the emphasis on the health services to lower infant mortality in the current five-year plan period, the long-range trend is toward further population growth until such time as urbanization will result in a perceptible decline in the birth rate. This has two consequences. One is the above mentioned need to provide jobs corresponding to the increase in the labor force. The other is the persistent rise in the number of children by comparison with employed persons. In 1979, 32 percent of the urban population and 40 percent of the rural population were less than 15, and the proportion of the working population by comparison with that of people above and below working age (15 and 59 respectively for men and 15 and 54 respectively for women) was only 55 percent. This large proportion of dependants is unlikely to be alleviated by raising the percentage of gainfully employed persons in the active population, because women are almost as active in the economy as

men (though, following tradition, they tend on farms to work in groups). In view of the current overpopulation in rural areas, not much is to be gained by mechanization: Field cultivation and animal husbandry largely proceed on a manual basis and probably provide greater per unit earnings than would likely be achieved with machines. Actually needed are fertilizers, hybrid seeds, pesticides and the many processes to improve fertility. The countrywide utilization of water reserves occupies second place in the program of the Minister of Agriculture, increased fertilizer supplies are third and mechanization to assist scarce manpower at the height of the mass harvests fifth.(83) The earlier mentioned anxieties with respect to the domestic chemical industry are related to the necessity for increased fertilizer production.

Table 11: Urbanization and Population Growth in Albania

	(1) Prozente	(2) Natürlicher Zuwachs in Prozent		
	(3) s. Lëtisch 1980	1951-1960	1971-1980	(4) Veränderung
Tirana	66,2	5,5	2,2	-2,3
Durrë	48,4	3,2	2,2	-1,0
Vlorë	45,8	2,2	1,7	-0,5
Elbasan	40,2	3,1	3,4	+0,3
Berat	37,7	3,6	2,4	-1,2
Gjrokaster	37,7	1,2	1,2	0,0
Krujë	33,5	3,8	2,5	-1,3
Shkodër	33,5	2,0	1,8	-0,2
Korçë	32,3	2,3	1,4	-0,9
Skrapar	30,2	0,1	3,2	+3,1
Fier	27,2	3,1	2,5	-0,6
Sarandë	27,0	2,5	1,9	-0,6
Kolonjë	25,0	0,4	1,1	+0,7
Tepelene	23,8	2,0	2,0	0,0
Pogradec	23,2	1,3	2,4	+1,1
Lushnje	20,5	5,5	2,0	-3,5
Përmet	19,6	0,1	1,2	+4,1
Lezhë	18,0	2,9	3,0	+0,1
Gramsh	15,6	0,7	2,8	+2,1
Kukës	15,5	1,2	2,8	+1,6
Mirditë	13,9	1,3	3,0	+1,7
Tropojë	13,1	2,3	2,8	+0,5
Mat	12,6	2,6	2,4	-0,2
Librazhd	10,1	2,2	2,8	+0,6
Pukë	9,9	3,0	3,5	+0,5
Dibër	9,8	2,1	2,4	+0,3
(5) Landesweiter Durchschnitt	33,6	2,9	2,3	+0,6

Key:

- |                                |                        |
|--------------------------------|------------------------|
| 1. Percentage                  | 4. Change              |
| 2. Natural growth (percentage) | 5. Countrywide average |
| 3. Urban                       |                        |

Source: V. Misja, "Shndrrimet ne Nivel in dhe Strukturen Arseimore te Popullise ne RPSSH," Tirana 1982, pp 76-77.

In 1961, when Albania broke with the Soviet Union, the population stood at 1.6 million. Self-sufficiency on the Maoist model appeared politically attractive and feasible in terms of the economy. According to the forecasts, the population will be about 4 million by the end of the century, and in a country with only 600,000 hectares land suitable for cultivation, "intensification" is bound to enjoy priority.

The reduction in privately owned fields, the restriction of agricultural markets to sales to state distributors, the pressure to give up private livestock, the far reaching nationalization of cooperatives and the egalitarian wage structure on the state farms generally result in the exclusion of those incentives which would normally be the wages of intensification. Private initiative has not been totally excluded but it tends to be hidden and may be banned at any time: In summer 1984, a tourist observed a peasant woman selling eggs which she hid under her skirts until the actual sale; another woman distributed bunches of onions to her children who were to hawk them to various customers.

As emphasized earlier, the imports cuts represent a general problem as well as one for agriculture. It is inconceivable that a population of 6.5 persons per hectare agricultural area could possibly be fed 15 years from now without participation in international trade.

#### FOOTNOTES

1. ZERI I POPULLIT, 2 May 1984. The slogan does not refer to stal (steel) (in the Albanian language steel is called celik), but the phraseology is Stalinist.
2. PROBLEME EKONOMIKE, No 1/1984, p 4.
3. The 104th anniversary of his birth was much celebrated: The phrase used in the city named for him--Qyeti Stalin--said "Stalin--the resolute fighter against opportunism and revisionism of all kinds" (ZERI I POPULLIT, 21 December 1983).
4. The author traveled in Albania twice (June 1960 and April 1983) and published several studies of the Albanian economy (the first for the United Nations, "Economic Survey of Europe in 1960," Geneva 1961, and later for THE CONTEMPORARY REVIEW, August 1983).
5. Tirana 1981, 139 pages, an official translation of "35 Vjet Shziperi Socialiste," Tirana 1979, 161 pages (hereinafter designated 35 Years...).
6. In his speech, Qirjako Mikali, finance minister at that time, mentioned 11 percentage increases compared with 1982 and 3 absolute top values (grain production, investments and housing units constructed) for 1983 (ZERI I POPULLIT, 27 December 1983), and the Law on the 1984 Plan projects 8 percentage increases by comparison with 1983 (as before, 28 December 1983).



7. The Fifth Plenum (since the Eighth Party Congress) was dealt with in PROBLEME EKONOMIKE, No 3/1982, the Sixth in No 1 and the Seventh in No 4/1983, and the Eighth in No 1/1984.
8. The communiques on the Seventh and Eighth Plenums (20-21 September and 19-20 December 1983 respectively) merely report the speakers, not either the topics nor any decisions adopted.
9. ZERI I POPULLIT, 22 February 1968, cited by A. Schnytzer, "Economic Strategy in Practice: The Case of Albania," Oxford 1982, p 41. This is the standard book on the development of the Albanian economic system 1945-1977.
10. Balluku's "military coup" and the preparations for "abandoning the coast and the cities to imperialist aggressors, the patrons of Mehmet Shehu" are alleged by Hoxha to have occurred in 1973. "The Titoites," Tirana 1982, p 620.
11. For sources and data relating to the dispute about foreign trade operations through early 1979 see the author's article on "Albania's Self-chosen Predicament," THE WORLD TODAY, June 1979, pp 259-268. The opposition to Theodhosi was led by Adil Carcani, now premier.
12. Up to now only few details have been made known: The Central Committee met on 26 and 27 June 1977 "to discuss defense issues" (the communique briefly stated that the measures necessary to defend the father land had been taken).
13. ZERI I POPULLIT, 9 July 1977.
14. M. Shehu, "Report on the Seventh Five-Year Plan (1981-1985)" Tirana 1981, p 139.
15. The secret report mainly originates with the Yugoslav weekly NIN. In "The Titoites," as before, pp 617ff, Hoxha explains that the Politburo had criticized Shehu's approval of his son's marriage to the daughter of a family with several emigree members (the emigrant, named Prof Arshi Pipa at the University of Minnesota, told the author that he did not know which branch of his family was allegedly involved in this affair).
16. This percentage (6 percent of total investments) lies between the increase planned for 1981-1985 in nonproductive investments and those of 1976-1981 (16 percent compared with 23 percent), related to the last known share of accumulation in the net material product (36 percent in 1971-1975); see Shehu, op. cit. , pp 39 and 114, and "35 Years of Socialist Albania," op. cit. , p 117. With reference to these developments, see the author's article "Albania's Muscular Socialism," CONTEMPORARY REVIEW, August 1983, pp 89-94.
17. On 18 July 1984, THE TIMES stated that Hoxha, due to illness had only two years to live. Hoxha's personnel changes resulted in the arrival of a woman,

Lenka Cuka, in the Politburo. In the course of the changes carried out in 1976, he appointed three women to the Council of Ministers, to head the ministries of Agriculture, Light Industry and Education.

18. Shehu, op. cit., p 5.
19. Both percentages idem. , p 44. Since 1964 Albania has not published any foreign trade figures, while China which began to publish statistics in 1982, did not mention Albania in its foreign trade figures.
20. ZERI I POPULLIT, 19 May 1984.
21. Ibid, with reference to the valuta lek as a foreign exchange value and its conversion at the official trade rate: See K. Postoli, "Bankat dhe Veprimtaria e Tyre ne Shqiperine Socialiste," Tirana 1981, p 179.
22. The origin of the other combine equipment was also varied--spinning machines came from China (made in 1971), knitting machines (1969) and cotton stocking machines (1961) from the GDR, a nylon sock knitting machine (1982) from the CSSR. The electrical equipment originated in Italy, the new machines to produce lace in the FRG. Cotton yarn was of domestic manufacture, but the polyester fibers were made in Greece.
23. Ibid, 31 May 1984. On the defects of replacement part production, see Raymond Hutchings, "Albania's Population Boom", SOVIET ANALYST, 27 June 1984, pp 2-4.
24. BBC Summary of World Broadcasts, East Europe, Weekly Economic Report, 28 December 1983, p i (hereinafter designated BBC Summary).
25. ZERI I POPULLIT, 27 December 1983.
26. BBC Summary, 22 December 1983, p A21. and 9 February 1984, p A2.
27. ZERI I POPULLIT, 27 December 1983.
28. BBC Summary, 17 Mayt 1984, p A28.
29. Extract from BBC Summary, 26 January 1984, p A23, completion date from ZERI I POPULLIT, op. cit.
30. The rail section to Pogradec on Lake Ochrid will be continued to Korce, but a connecting section to the Yugoslav rail network close by would need large sums spent on tunnel construction.
31. "Njohuri per Ekonomine Socialiste," Tirana 1981, pp 209-209; this is a comprehensive manual of plan drafting and plan implementation, published by the Economic Institute of the Academy of Sciences and the economics faculty at Tirana University.
32. Ibid, pp 209-210.



33. "Guide e Mal Lrave te Eksportit e Te Importit Shzipar 1982-1983," Tirana, no date given.
34. Minerals and industrial crops were emphasized in a discussion on the foreign trade plan, ZERI I POPULLIT, 31 May 1984.
35. Ibid, 27 March 1984 (the quota was exceeded by 3.3 million kilowatt hours in January and by 4.7 million kilowatt hours in February).
36. The Sino-Albanian trade agreement of 16 October 1970 facilitated financing an import deficit amounting to \$600 million for 5 years. Actual deliveries involved a total deficit of only \$330 million, but even this was 45 percent more than the actual 1966-1970 deficit (see the author's report in THE WORLD TODAY, June 1979, p 262, and in the U.S.Congress Joint Economic Committee, "East European Economies Post-Helsinki," Washington D.C.1977, p 1335.
37. In 1970, replacement part production amounted to 149 million lek and machine production 152 million lek; the figures for 1979 were 399 million lek and 422 million lek respectively ("30 Years...", p 64).
38. Shehu, op. cit. , p 31.
39. "Njohuri...", op. cit. , p 218.
40. The example explaining this formula, ibid, p 222, presumably reflects the value of the rate in effect--1 valuta lek of imports results in the sale of commodities worth 5.50 domestic lek, while 1 valuta lek in exports of commodities costs 5.00 domestic lek, the profit (rentabilitet) is therefore 0.50 lek.
41. Ibid, pp 41,43.
42. Ibid, pp 52 and 55.
43. On the use of drejtim unik in place of udheheqie unike and the other changes in 1970, see the author and Adi Schnytzer, "The Economic System of Albania in the 1970's," in A. Nove, G. Hoehmann and G. Seidenstecher (editors), "The East European Economies in the 1970's," London 1982, pp 321-323.
44. H. Banja, J. Fullani and H. Papajorgi, "Probleme te Organizimit e te Drejtimit te Economise Popullore ne RPSH," Tirana 1983, p 326.
45. J. Fullani, PROBLEME EKONOMIKE, No 4/1983, pp 33,36 and 37.
46. Ibid, p 32.
47. Ibid, pp 37 and 38.

48. Contribution by V. Mullaraj at the conference, reported as above, No 1/1983, p 64.
49. Speech by Carcani, as before, pp 28 and 30.
50. Bektashi, as before, p 5.
51. Speech by Alia, PROBLEME EKONOMIKE, No 2/1983, pp 8 and 11.
52. Mihali and Bektashi, as above, No 1/1984.
53. Editorial, "The Change in the Chemical Industry Must be Comprehensive and Fast," ZERI I POPULLIT, 27 May 1984.
54. Report on the egalitarian policy and sources, see Schnytzer, op. cit., pp 113-116.
55. H. Banja, "Probleme te Shperndarjes Sipas Punes," Tirana 1982, p 70.
56. All data as above, pp 71-77.
57. Shehu, as before, p 157.
58. Banja, as before, pp 76-77.
59. S. Bilaca, "Rezultati Ekonomik dhe Rentabiliteti ne Ndeermarrjet Industriale."
60. H. Banja, "The Construction of the Economic Base of Socialism and Its Perfection in the PSR of Albania," Tirana 1982, p 182.
61. Hutchings, op. cit. , notes that the projected urban growth amounts to 44 and rural growth to 42 by 2000.
62. A list of revenues and expenditures, some of which (according to the difference) are recorded as "miscellaneous," may be found in "Njohuri...", p 339.
63. L. Kriqi, B. Gjika and S. Gjoni, "Elemente te Teorise e Praktikes te Kontroll-Revizionit Financiar," Tirana 1981, pp 31-33; also Postoli, as before, p 32.
64. BBC Summary, 14 April 1983, p A7.
65. Postoli, op. cit. , p 9.
66. GAZETE ZYRTARE, No 8/1981.
67. E. Hoxha, "Report to the Seventh Congress of the Party of Labor of Albania," Tirana 1976, p 55.

68. Ibid, pp 39-40.
69. Ibid, p 41.
70. Ibid, p 38.
71. Shehu, op. cit., pp 103-104.
72. Ibid, p 36.
73. ZERI I POPULLIT, 29 May 1984.
74. Themie Thomai and Lufter Xhuvelli, PROBLEME EKONOMIKE, No 2/1983, p 53.
75. Ibid, 2 May 1983. As the article deals with self-sufficiency, it was pointed out that 95 percent of replacement parts were manufactured in the country.
76. Ethem Zaqaj, op. cit., 19 May 1984.
77. "35 Years....," p 135.
78. H. Banja, I. Fishta and V. Toci, PROBLEME EKONOMIKE, No 1/1983, p 132.
79. Thomai and Xhuveli, as before, pp 52-67. The brigade system is particularly recommended for intensification (Kota, op. cit. , No 3/1983, pp 55-64).
80. "35 Years....," pp 28-30.
81. Hoxha, "Report to the Eighth Congress....," as before, p 58.
82. Ibid.
83. Thomai and Xhuveli, op. cit. , p 58.

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CSO: 2300/315

CZECHOSLOVAKIA

## NEW WASTE WATER CLEANING SYSTEM DEVELOPED

Prague TECHNICKY TYDENIK in Czech No 2, 1985 p 8

[Article by Eng Josef Janota: "CZU Type Wastewater Treatment Plants"]

[Text] The all-purpose underground wastewater treatment plant employing a continuous mechanical-biological cleaning process was designed in 1971. It featured water retention, hydropneumatic operation, vertical volume circulation, automated sludge repumping and automatic operation control. The zero (experimental) series of these treatment plants was monitored until the end of 1983. The objective was to assess their effectiveness, operation and maintenance, savings of materials and of investment costs. The CZU type treatment plants were then patented in May 1984 as a Czechoslovak invention.

The essential feature of the entire system is its tank. The latter's trapezoidal profile is designed to resemble the natural trough of a water stream as much as possible, because the guiding idea of the treatment plant was to interfere with the laws of nature as little as possible. The tank comes equipped with all the requisite internal accessories that can be substituted or complemented, depending on functional needs. Thus it is a multipurpose system.

### Underground and Self-Contained Tanks

The entire tank is provided with a ceiling that makes it possible to place it anywhere, without the need for respecting hygienic zones. Its functioning is not affected by climatic conditions. The system fully meets architectonic and esthetic requirements, because it is underground, invisible, and noiseless. There are two tank types--underground and self-contained.

An underground tank is formed by the reinforcement of soil in a dug-out and appropriately shaped excavation. Its prescribed gradients are achieved through grouting, ramming, or with lean concrete. The bottom and walls are made, as a rule, of reinforced concrete. The ceiling structure is formed by PZD plates suspended on I profiles.



The self-contained tank from the North Bohemian Chemical Plants in Lovosice is made of thin-walled sheet metal, plastic plates, and insulation coating. It consists of three parts which can be transported independently and assembled at the site.

The basic design uses a trapezoidal cross profile of base widths 800 mm and 3,500 mm and a height of 3,100 mm. The tank is 600 mm long.

The cross profile of the supplementary module coincides with the profile of the basic design; however, its length is variable. It always comes in multiples of 1,500 mm. The supplementary module is omitted for the smallest operating units.

The structure for covering operating areas is removable, its height is 400 mm, and its shape conforms to the tank's ground contour. Between the circumferential frame and the swing-away covering metal sheets there is a slot for atmospheric air intake.

#### Contents of Tanks

The internal equipment of both types of tanks can be changed in dependence on the function of the entire system.

The bare tank without internal equipment serves as an accumulation sump.

A tank equipped with a partition baffle (20--see drawing) and screen (26) assumes the function of a septic tank.

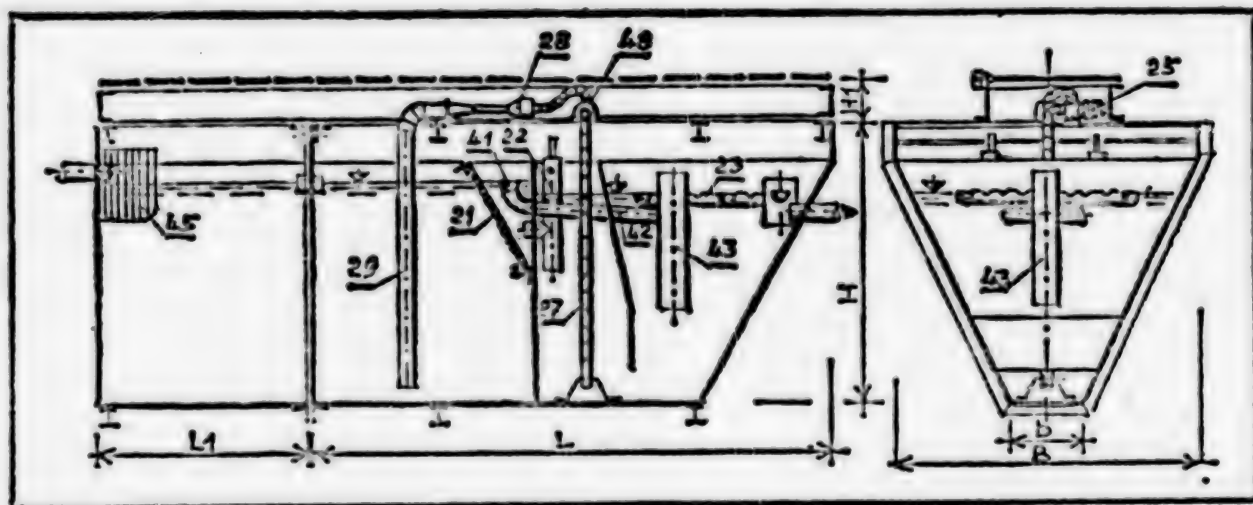


Figure 1. Cross Section of a Single-stage Wastewater Treatment Plant

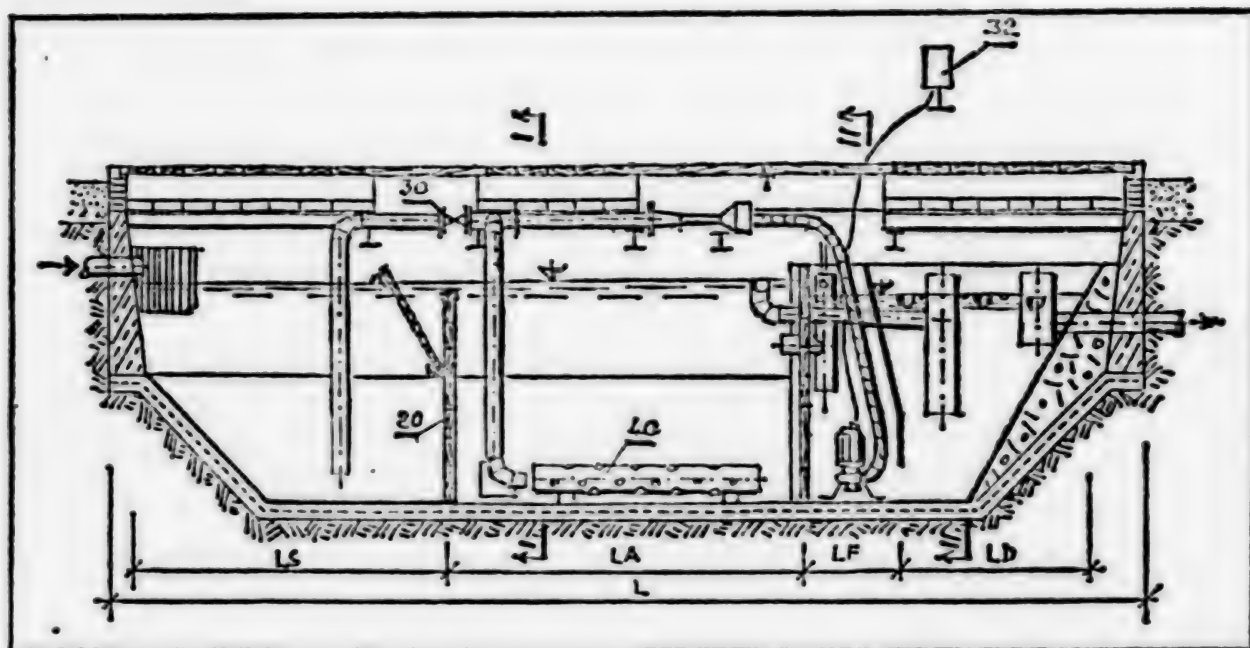


Figure 2. A Two-stage CZU Type Treatment Plant

The basic functionally independent single-stage wastewater treatment plant employs the following arrangement and equipment of the tank: the partition baffle and screen with a slot near the tank's bottom separate individual spaces--for activation, retention, flotation, repumping, sludge pockets and feeding. The aerated rough cleaning basket (45) intercepts at the inlet into the tank all coarse nondecomposable impurities. An oblique bar screen (21) propped against the separating baffle in the activation zone intercepts and returns into the cleaning process all waterborne impurities. The flow-through system, consisting of a collecting trough (41), a connecting pipe (42) and a feed cylinder (43), transfers water from the activation zone into the sedimentation zone. All impurities floated upward become accumulated at the water level of the feed cylinder. A system of collecting overflow discharge troughs (23) leading into the collecting vessel superimposed on the drainage pipe from the tank regulates water level in the sedimentation space, stabilizes the height of hydrodynamic gradient and drains cleaned wastewater from the tank.

The aeration, repumping and flotation system in the tank is formed by:

--inlet pipe with flow-through control (22) which transfers the circulating water from the activation zone to the flotation zone, where escape of air from water and flotation of oils, fats and sludge occurs;

--a multipurpose pump (25) with accessories (27) located above the tank's water level in the smallest treatment units--usually FEKA with a noise-control cover (48)--and in larger treatment units at the tank's bottom-GPMU. The pump returns sludge from sludge pockets into the cleaning process, aeration, circulation of a mixture of water, sludge and air;

--ejector (28)--mostly the NE-SCHZ type made by teams of personnel of the North Bohemian Chemical Plants in Lovosice--located below water level injecting atmospheric air into the water;

--mixing tube (29) where the initial phase of absorption of atmospheric oxygen into water occurs;

--additive pipe (40)--made according to the authorship certificate AO 208973 of Eng Antonin Pavlik--provides for thorough mixing and transfer of atmospheric oxygen into water in the activation zone;

--time switch (32) located outside the tank in the closest building and controlling the entire operation of the treatment unit.

A complete two-stage wastewater treatment plant comes with additional equipment, namely a partition baffle (20) and intake pipe into the sedimentation zone with a control gate (30).

Maximum use is made in overhaul and equipping of tanks of products made of plastics, accessories are made of anticorrosion metal, the entire structure is provided with an anticorrosion yet nontoxic coating or spray. The key requisite of satisfactory functioning and effectiveness of the treatment plant is proper, careful and reliable operation and maintenance of the system. For that reason the tank design itself as well as its interior equipment is kept as simple as possible. It is easily accessible, easy to clean, maintain and operate.

The size and equipment of a treatment plant is determined for each locality by calculations involving the amount of incoming water flow, the extent and nature of pollution and the demands made on the resultant cleaning effect.

#### Monetary Savings and Easier Operation

The economic results achieved with installed and operated CZU type treatment plants as compared to routinely used treatment plants can be put in figures as follows:

A treatment plant with a daily flow-through of the water to be cleaned on the order of  $Q_d = 10.0 \text{ m}^3/\text{d}$  and input pollution of  $\text{BSK}_5 = 3.0 \text{ kg O}_2/\text{d}$ , i.e., for approximately  $EO \approx 50$  persons represents a Kcs 215,000 saving of investment costs. A treatment plant with daily flow-through of  $Q_d = 112.4 \text{ m}^3/\text{d}$  and input pollution  $\text{BSK}_5 = 20.25 \text{ kg O}_2/\text{d}$ , i.e., approximately  $EO \approx 370$  to 560 persons saves some Kcs 837,000 of investment costs.

The tested efficiency of the NE-SCHZ ejector corresponds to that of the Swedish FLYGT company. Efficiency of the additive pipe made according to AO 208973 was verified by Waterworks Prague.

The Krkonose national park administration rated the CZU type treatment plants to be the best suited for the demanding and strict conditions applied in the protected area of Krkonose Mountains.

POLAND

NEW TRADE ACCORD WITH PRC SIGNED IN WARSAW

Warsaw ZYCIE WARSZAWY in Polish 31 Jan 85 pp 1, 4

[PAP report: "Doubled Growth in Goods Supplies Between the Polish People's Republic and the People's Republic of China; Agreement on Trade Exchange"]

[Text] On the 30th of this month an agreement was signed in Warsaw on commodity turnover and payments for 1985 between Poland and the People's Republic of China. They assume a more than doubled increase in reciprocal goods deliveries in comparison to 1984. Turnover this year will reach a value exceeding 62 billion zlotys.

Poland will primarily deliver to the PRC machinery and equipment: automobiles and trucks, coal mining equipment, construction apparatus and metallurgical and chemical products. The expansion of offers and the increase in exports to the PRC was made possible by Poland's participation in the modernization processes proceeding in the Chinese economy. The growing exports of our goods made it possible to increase imports from the PRC, especially for market supplies.

We are importing nonferrous metals, petrochemical products, raw and semi-finished pharmaceutical products, raw and semiprocessed leather, tires, tung oil, rice, tea, pork, corn, cotton, cocoa and chocolate, crude cotton fabrics, silk fabrics, cotton and woolen products, knitting, cotton, leather and fur ready-made clothing, fabric-rubber and sport footwear, thermoses, school supplies and many other goods intended for the domestic market.

The significant growth in goods exchange in 1985 is a good basis for negotiations and for concluding a multiyear trade agreement within the next few months between Poland and the PRC for the 1986-1990 period.

The accord was signed by the deputy minister for foreign trade, Wladyslaw Gwiazda, and the vice minister for foreign economic relations and trade, Chen Jie.

During his stay in Poland, Chen Jie held conversations with the minister of mining and power, Division General Czeslaw Piotrowski, who chairs the Polish-Chinese Government Committee on Economic, Trade and Scientific-Technical Cooperation for our side. Among other things, they discussed opinions concerning preparations for convoking the first session of the committee in the first half of this year.



On the 30th of this month Vice Minister Chen Jie received Deputy Premier Janusz Obodowski. They discussed the results of work concerning the Polish-Chinese protocol for the current year and prospects for the development of economic cooperation between both countries.

In a talk with a PAP journalist, the Chinese guest emphasized the fact that such a considerable turnover level as the current one has not been noted in Polish-Chinese exchange for many years. "The Chinese side places great importance on the development of economic relations with Poland. They are profitable for both countries. The development of exchange is not a matter of chance, and a number of delegations have been exchanged recently, even on the level of ministers of foreign trade. During these tours we have become acquainted with each other's needs and capabilities.

"The PRC definitely requires machinery and equipment in the field of power, mining and the transportation pool, in connection with its developmental plans. We are likewise interested in importing from Poland metallurgical products, chemical fibers, soda ash, caustic soda and copper. In return we offer important raw materials, including agricultural and food items and other market articles. We also have a trump in the fact that this exchange involves practically no foreign exchange currency. The development of trade is furthered by the existence of the Chinese-Polish Chipolbrok shipping association, which reduces problems associated with the great distance between our countries.

"I am convinced," Vice Minister Chen Jie emphasized, "that in the future economic cooperation and trade exchanges between the PRC and Poland will develop successfully."

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CSO: 2600/574

POLAND

# IRON, STEEL INDUSTRY OVERHAUL PROGRAMS REVIEWED BY SEJM

Warsaw RZECZPOSPOLITA in Polish 30 Jan 85 p 2

[Article by (CH): "In Metallurgy Without Repairs or Progress"]

[Text] Repairs do not replace modernization or the construction of new and more efficient production equipment. Without repairs even the most modern and outstanding store of machinery rapidly becomes something completely worthless. This can be seen with particular vividness especially in those branches of industry whose assets have been the object of considerable disinvestment. Metallurgy is one of these branches.

Deputies of the Commission on Industry, evaluating repair management in metallurgy on the 29th of this month, and through this prism the technical state and effective utilization of equipment installed in metallurgical plants, had no reason to form optimistic judgments. In truth, the resolution adopted by the Council of Ministers in May of last year did create a basis for the development of metallurgy in the years just ahead, but its condition today was judged to be unsatisfactory.

According to the deputies, the reason for this was the excessive intensification of production in the 1970's, achieved at the expense of neglecting necessary repairs. Similarly, in 1980-1982, scarcely 73-86 percent of repair orders for metallurgical plants were carried out. Coke engineering suffered mostly from this, because the capital repairs conducted in 1970-1982 on coking batteries embraced less than half of the batteries installed.

While the restrictions on repair outlays found justification in the economic condition of the country, errors in planning and executing them also weighed heavily only on the metallurgical plants and enterprises, and their own repair personnel. The deputies called attention to the fact that repairs for much equipment were ordered without proper organizational, documentary and material preparation. This extended the repair time over the so-called normative times. An example of this can be the 8-month protraction of capital repairs on two coking batteries in the Debinsko coking plant. Irretrievably lost were 130,000 tons of coke worth a total of 800 million zlotys.

Lack of satisfaction of the repair needs of the metallurgical industry and abnormalities appearing in their execution were added to weakness in its own repair potential, performing about 80 percent of all repair jobs. In recent

times a considerable worsening in the technical performance of the repair and mounting apparatus and in transport has been added to the shortage of personnel. The rate of repairs is also weakened by the shortage of refractory materials, and likewise by a shortage of foreign exchange currency for buying some equipment.

The following deputies took part in the discussion, chaired by Deputy Henryk Szafranski (PZPR): Antoni Seta (PZPR), Dobromila Kulinska (PZPR), Tadeusz Wozniczka (PZPR), Zdzislaw Wydrzynski (PZPR), Stanislaw Baranik (PZPR), Kazimierz Smuda (PZPR), Wladyslaw Zelazny (PZPR), Mieczyslaw Derejski (ZSL), Leslaw Laskowski (PZPR), Kazimierz Fraczak (PZPR), and Helena Kurnatowska (PZPR).

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CSO: 2600/574

POLAND

## ECONOMIC ADVISERS MULL FOOD PRICE HIKES

Warsaw RZECZPOSPOLITA in Polish 30 Jan 85 p 2

[Article by (LS): "Agrarian Economists on Food Prices: With or Without Ration Cards"]

[Text] In evaluating proposals for food price changes and a restriction on rationing, the economic team of the Food Economy Council, meeting on the 29th of this month under the chairmanship of Prof Z. Grochowski, came out in favor of activities aimed at balancing the food market, at a restriction on budgetary subsidies for food, and also at a gradual repeal of rationing.

The general conclusion of the team is broader consideration with respect to the economic conditions of the price formation policy for agricultural products and food, and also more complete consideration of the market mechanisms which will affect an increase in efficiency and stimulate popular initiatives in food production.

Among other things, the discussions covered the usefulness of simultaneously setting purchase prices for agricultural products, prices for means of production for agriculture, and retail prices for food--with the participation of all interested partners (Docent E. Mazurkiewicz). Price changes aimed at balancing the market should primarily embrace those products where the balance is most unsettled, i.e., meat and meat products (Prof Z. Kierul).

In general agreement the team members supported the maintenance of subsidies for milk and milk products, and also for emergency retention of meat product rationing, with the stipulation that in this case there will be a necessary retreat from rationing (for example, by transferring the subsidies to the incomes of the people), and setting balanced prices which will begin to inform consumers and producers properly of the real cost of the product (Prof J. Okuniewski). According to estimates, a repeal of rationing at the current level of meat production would assure an increase in market supplies of meat by approximately 200,000 tons, and therefore by about 5 kg per capita (Prof J. Grochowski).

Among other things, the discussions covered some problems in market organization, including the role of monopolies in the food economy, decisive for the



conditions of supply and prices (Prof Z. Kierul), although under balanced prices even the monopolies will have to count on the market situation (Prof J. Okuniewski).

The team evaluated the income situation in the country, which is expected to become worse in 1985, and the material situation of the farmer-pensioners against the background of the proposed food prices changes.

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CSO: 2600/574

POLAND

## NEW LAWS ON SMALL INDUSTRIES, FOREIGN-OWNED FIRMS

Warsaw TRYBUNA LUDU in Polish 1 Feb 85 p 2

[PAP report: "Government Bills, Small Industry"]

[Text] In the name of the Commissions on Economic, Budgetary and Financial Planning; Legislative Work; and the Domestic Market, Small Industry and Services, Deputy Jerzy Jozwiak presented a report of the work on the government bill on small industries. Below is a discussion of his statement.

In view of the fact that in the first reading of the bill in the Sejm the deputies voiced a great deal of concern in their discussions regarding the large number of delegations covered in the bill, it was stipulated that the bills be presented with adequate executive regulations as a condition for participation in substantive work. These were submitted. The bill will be passed today as evidence of the political stability of the country with respect to this important component of the national economy. It will also provide equality for all proprietary sectors by affirming that the trades are a permanent management component in the socialist economic system.

The basic matters were considered in the work of the Sejm commissions:

1. The position of the PZPR Central Committee Politburo and the Presidium of the Central Committee of the Democratic Party in December 1983 on the matter of developing small industry.
2. Premises associated with the new developmental conditions in the country for 1985-1995.

Guided by them, the special solutions proposed were subjected to the following general assumptions: the need to make changes in the economic structure and the need to find less capital-intensive forms of development using the potential capabilities of small industry in making technological progress in market production and services.

This solution contains two bills. The first and fundamental one is a bill on small industry. The second bill concerns changes in the law on the principles of conducting economic activity within the territory of the Polish

People's Republic in the area of small industry by foreign legal and physical persons.

During this work on the government bill, as a result of their discussions, the commissions held the position that combining two subjects in one document was not justified.

During their work the commissions also recognized that the small industry situation, and especially that of the socialized units, requires many preferences in the coming years.

The bill modifying the law on the principles of foreign legal and physical persons conducting economic activity within the territory of the Polish People's Republic in the area of small industry has changes referring primarily to the "organizational level," according to J. Jozwiak. The current practice of issuing a license to conduct economic activity, and the manner and form of associations of foreign economic subjects, required additional legislative regulation. In this respect the commissions expressed support for the solutions contained in the government bill and for automatic correction of the government with slight changes referring to refusal to issue licenses, while acknowledging that they may impinge on important interests of society or the national economy, as well as the security of the state or protection of a state secret. The commissions did not adopt the government proposal respecting the exclusion of matters of issuing and canceling licenses for foreign legal and physical persons to conduct economic activity from the jurisdiction of the Main Administrative Court. It was also recognized that this court should investigate only the legality of decisions and their conformity with the law, not their usefulness. However, the commissions did recognize as an expressed exception from the jurisdiction of the Main Administrative Court a decision refusing to issue a permit in view of state security or the protection of a state secret. The commissions are also proposing an additional change in current article 15, paragraph 4 of the law of 6 July 1982 on the principles of foreign legal and physical persons conducting economic activity within the territory of the Polish People's Republic in the area of small industry by raising the value of the parent deposit to at least \$50,000.

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CSO: 2600/574

POLAND

# IMPORTED CONSUMER GOODS HELP FILL SUPPLY GAP

Warsaw RZECZPOSPOLITA in Polish 2-3 Feb 85 p 3

[Article by (an): "Goods From Import Supplement Supply; 500,000 Refrigerators, Record Supplies of Tea From Pewex Assets, Equipment Increasing Output"]

[Text] The supply situation is gradually improving, although slower than public anticipation. The production of many goods is increasing, and domestic supplies are being supplemented by imports. Information from the MHWiU [Ministry of Domestic Trade and Services] shows that this year foreign goods worth at least 344 billion zlotys will reach the stores, including products particularly sought after, some which are not generally produced in our country.

This year imports from socialist countries will increase. Mechanized household equipment will be an important item in industrial goods. For example, 150,000 automatic washers will be coming (compared to 116,500 last year); constituting 33 percent of all deliveries. We shall import 500,000 refrigerators (61 percent of the deliveries to stores), or one-fifth more than in 1984. The supply of foreign rotary washers will triple, color television sets will double, and there will be more radios.

Tea occupies an important position among the imported products. An unprecedented amount of it will be purchased, 30,000 tons, while in 1982-1984 25,000 tons reached the market annually, with scarcely 15,000 tons in 1970. Unfortunately, the same cannot be said of coffee. It will be about the same as last year, some 21,000 tons, while there were 31,000 tons in 1975. Information for lovers of citrus fruits is comforting. This year 23,000 tons of lemons will be bought in Greece. In addition, increased supplies of citrus fruits are expected from Cuba, namely 51,000 tons (31,000 tons in 1984).

In the face of the difficult payments situation of our country, we do not anticipate an increase in imports of industrial goods from the capitalist countries. Some of these purchases will be made, just as in previous years, with Pewex assets remaining at the disposition of MHWiU. This year they will be used, among other things, to purchase equipment for the production of Adidas-type sports footwear. Investments worth \$16.5 million will allow the additional production of this much-sought footwear in quantities of 12-13 million pairs annually (starting in 1986), and a certain amount as early as this year. Some



of the assets will be allocated to finance the hosiery industry, which will render an additional annual production of 7.4 million pairs possible. In addition, 5 million pairs of pantyhose have been purchased.

Pewex assets will also be used by the industry producing laundry powder, dishwashing liquids and shampoos. The effect of this should be an increase in the production of powder of about 10,000 tons, of dishwashing liquids of 8,000 tons (9,000 tons produced last year), and of shampoos of 3,000 tons. Thus a total of 25,000 tons of shampoo will reach the market, and therefore the shortage of this cleaning agent will finally be eliminated.

It is worth adding that the purchase of 2,500 tons of coffee and spices (including pepper) will be financed by Pewex funds in the first quarter of this year.

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CSO: 2600/574

POLAND

TRADE IN AGRICULTURAL, FOOD ITEMS DISCUSSED

Interview With Trade Official

Warsaw SZTANDAR MLODYCH in Polish No 25, 5 Feb 85 pp 1, 3

[Interview with undersecretary of state in the Ministry of Foreign Trade Antoni Karas, by Jacek Swidzinski; date and place not specified]

[Text] [Question] Jacek Swidzinski: In 1981 Poland's unfavorable balance of trade in agri-food items was at a record high: the surplus of imports over exports amounted to over \$2 billion. Has anything in the last three farm years changed for the better in this field of foreign trade?

[Answer] Antoni Karas: Generally speaking, some far-reaching changes have taken place. We should remember that 1981 was a bad year for crops, to say nothing about other matters. We had to import--in addition to the traditional purchases (but in much larger quantities) of such commodities as grain, feed, meat, and vegetable and animal fats--those commodities which normally are, or have been, the object of Polish export, that is, butter, sugar and potato flour. The large growth of imports with a simultaneous drop in exports resulted in an unfavorable balance. This had a very bad effect on the structure of our imports at that time because in view of the payment schedules it greatly reduced our ability to purchase supplies for industry.

[Question] What was last year like in that respect?

[Answer] The good grain harvest made it possible to significantly reduce imports of consumption grains. We bought over 1 million tons of high-protein feeds. As I said, in 1981 we even had to buy sugar, while last year we sold 300,000 tons. We also exported a certain amount of potato flour...

[Question] Excuse me, Mr Minister, but our readers would never forgive me if I did not ask you why sugar is rationed in Poland while we are selling such large quantities of it abroad, especially since the price of sugar on the commodity markets has dropped very sharply.

[Answer] The problem is not whether or not we are depleting our markets of sugar for export purposes. Sugar consumption in our country is close to optimal. In many countries sugar consumption per person is lower and is still

falling. Sugar is being rationed because of the fear that it will be used for another purpose. It would be easy to prevent this simply by pricing it very high, but this solution has been rejected for social reasons.

[Question] This other purpose is bootlegging, is it not?

[Answer] Yes. Poland is the only country I know of where sugar is used for the production of alcohol on such a large scale. There are countries where alcohol is produced from fruit. That is how the French obtain calvados, the Hungarians palinka, etc. From the economic standpoint, this is wasteful. But unfortunately, the current structure of prices is responsible for this. I would also warn against reducing the acreage devoted to sugar-beet cultivation. It is possible that yields will drop, which would make it necessary for us to import again. At present economic conditions are terrible, but we still remember the year in which the price of sugar was \$1,000 a ton.

[Question] And speaking generally, should Poland be an exporter of food?

[Answer] Absolutely. Poland historically has been an exporter of food. For example, during the interwar period, when consumption was low, our country sold a number of commodities which were structurally surplus. In 1938 exports of farm-food items made up 85 percent of Poland's total exports, and imports were only 11 percent! It was the same after the war, all the way up to 1974. Immediately after the war, food, apart from raw materials, was almost our only source of foreign exchange from the capitalist countries. Until 1960, food's share in exports to these countries exceeded 50 percent. But at the same time imports rose, although we always had a favorable balance in turnovers of these items. In 1974, due to a growth in consumption and population, and particularly due to larger imports of feed for the production of meat, we bought more food than we sold. As the years went on the unfavorable balance grew, all the way up to 1981 when it reached its highest ceiling--over \$2 billion.

[Question] Does this mean that we are destined to import food?

[Answer] Of course not. Polish scientists claim that we can feed ourselves. In this light, the decisions made at the joint meeting of the PZPR Politburo and the ZSL Supreme Committee regarding tasks for agriculture and foreign trade in this area are justified. These ministries have been assigned a goal: to achieve, by 1990, at least a balance of foreign turnovers with farm-food commodities. Since that meeting we have obtained significant results, despite the fact that they were due to the drastic reduction in imports of many commodities. I am referring to those goods which, of necessity, we call luxuries, such as coffee, cocoa, citrus, spices, delicacies such as raisins, nuts and figs, and a number of non-nutritional stimulants such as tea, wine, etc. The large impact of rationing on this balance should be noted.

[Question] Nevertheless, in the eyes of the ordinary citizen, the food market is poor and export depletes it even more...

[Answer] I cannot agree with that point of view. In no case does foreign trade deplete the market. On the contrary, it enhances it, acts to improve it both

from the standpoint of quantity as well as product assortment. Thanks to import (which is possible thanks to the export of food) the structure of consumption improves.

If we are talking about the export of meat, for example, then it must be clearly said that we are exporting primarily those kinds of meat for which there is no demand on our market. We sell horsemeat, mutton, rabbits, game, water fowl, and variety meats not eaten by us. We also sell high-quality grades of meat: hams, sausages and cured meats. But I would like to say that the export of the higher grades of meat is fully balanced by the import of cheaper grades. It is on the differences in their prices that we earn the foreign exchange necessary to import other food items, because the ratios of prices in import and exports last year were 1:3, and this year they may be better.

[Question] We export more than just meat...

[Answer] More and more we are exporting fresh fruits and vegetables, frozen foods, processed foods, mushrooms, flowers, extracted rape meal, rye, berries, forest ground-cover, potatoes, powdered milk, malt, beer, tobacco, spirits, vodka, casein and molasses. Overall (1983) 8 percent of our exports are farm-food commodities.

[Question] Why do highly processed commodities make up such a small percentage of this?

[Answer] That is true. First of all, it should be said that it is precisely export which has such a large effect on refining the production of commodities intended for the domestic market also. The requirements of foreign buyers are constantly increasing. Export also makes it possible to make better use of raw materials. Let us take frozen foods, for example. They would not be on our market if it were not for export. Recently, apple juice became a very large item in the West. In order to export we imported large numbers of presses to extract the juice. Some batches of these juices, with flavors added, will also be found on our market.

We would like to have our food exports include refined products and more deeply processed products, as much as possible. But we do not have the preserving and processing infrastructure. This branch of industry was neglected for years and no investments were made in it. The Achilles' heel of our agriculture is preservation. We do not know how to utilize, for production, everything that the earth gives us. Nevertheless, the decisions made recently by the Government Presidium give us hope that progress will be made. In any case, it is well to remember that it is the high requirements of our foreign purchasers which make for better quality of food items on our own market.

[Question] In many areas of farm production we are still giants, as for example in the production of potatoes, and yet in export we do not rank very high. Why?

[Answer] The example of potatoes is characteristic. Holland, which harvests 4 million tons, i.e., 10 percent of what we do, is one of the largest exporters



in the world. Why is this? Product quality. We know, for example, that Dutch seed-potatoes are the best. Second, the uniformity of grade. In our country every plot of potatoes is a different variety, and with the Dutch that is not the case. Next, processing. We don't even know how many different kinds of products the Dutch produce from an ordinary potato. And finally, what I said before, preservation and storage. They harvest less, but then there are no further losses. We could also apply these same comments to other products of ours, e.g., apples.

[Question] Aren't the prices that we are getting for our products too low?

[Answer] Before we bring up this subject I would like to say a few words about our sales network. It is based on companies operating on the western markets. Thanks to them we can expand our farm-food export both from the standpoint of quantity as well as assortment, and then, on an ongoing basis, evaluate economic conditions. In France there is ASIPAG, in the FRG there is AGROPOL, in the United States the Food Corp., in Japan AGROPOL, etc. In the countries close to us we have established a transportation network serviced by special, refrigerated vehicles. We could sell more and better, but that depends on the degree of processing, on packaging, and on a higher standard of products.

[Question] Mr Minister, much has been said up to now about export. What about import? This question is important here because in the proposals on changes in food prices and lifting of rationing it was mentioned that it may be necessary to increase supplies of butter, lard and meat through imports.

[Answer] Because the gyrations of the market are very hard to predict, there are many opinions on this. Some say that we will have to increase imports, others say that we won't. Much will depend on public reaction. However, farm-food imports will be affected most of all by this year's harvests, and here it is difficult to make any kind of prediction.

Nevertheless, we simply must import many commodities each year. These are products which we are still not producing in sufficient quantities, as for example, feed and consumption grains, meats and animal fats, and those products which we cannot produce because of our climatic conditions. In the second group are the commodities which belong to the so-called "luxury" group (coffee, cocoa, delicacies, citrus, etc.) and the commodities which are staples in our country, such as tea and some vegetable fats. Although we can imagine certain reductions in imports of luxury items, our market cannot get along without meat or tea. Let us take rice, for example. We cannot grow it in our climate, and yet imagine our market without rice. In turn, a limited supply of luxury commodities means that their prices are high.

[Question] How are the terms of trade (relationship of prices in export to prices in import) shaping up in our foreign trade in farm-food turnovers?

[Answer] Generally speaking the price setup this year is bad for us. We already talked about sugar, but here is a concrete example: On 13 January 1984 the price of one pound of sugar in New York was 7 cents, and this year on that same day the commodities market was paying only 3.82 cents. It is the

same in London. In the course of a year the price of sugar dropped from 132 British pounds per ton to 99 pounds. On the other hand, the price of wheat, which we are importing, is going up. Another matter--the price of soya oil, imported by Poland, went from \$223 to \$227 in one year, while the price of rape, which we export, dropped from \$319 to \$248. Cocoa prices in Acre [Brazil] jumped from 1,895 pounds per ton to 2,217 pounds, etc.

[Question] Is foreign trade prepared to increase food imports should this become necessary as a result of a possible lifting of rationing? Can we afford this?

[Answer] Our balance of payments continues to be poor. We are not covering all of our import requirements, and in some cases we have a long way to go to meet them. The situation in imports of consumer goods is particularly disturbing. We also have specific requirements in investment and consumption imports. And so we must give a great deal of thought before we spend even the smallest amount of foreign exchange. Once more let me remind you that in 1981 food's share in total exports was 7 percent, and almost 12 percent of exports to the capitalist countries, while food constituted 25 percent of total imports, and 49 percent of imports from capitalist countries. We must be especially wary of the danger of reducing imports of goods which allow us to increase production for the market as well as for export. This means, for example, that 20 percent of outlays for import, in effect, give 100 percent in market production, a five-fold return.

We expect that total exports in 1985 will grow more rapidly than has been envisaged in the plan (a 4 percent increase in 1985 compared with the previous year), mainly in the electromachinery industry.

[Question] Can you give us a few figures on the size of farm-food export and import in 1984 and 1985?

[Answer] We do not yet have complete official data for last year, but according to our preliminary calculations export in 1984 amounted to 122.1 million zlotys, while farm-food imports cost 154.5 billion zlotys. However, for this year the following figures were anticipated in the National Annual Plan: export, 100.5 billion zlotys and import, 184 billion zlotys. But please do not regard these figures as final. I mentioned the matter of harvests and other factors.

For various reasons, to name trade secrets as one, I would not like to talk about the size of imports and exports of specific commodities. The books on this have not yet been closed and some corrections may still need to be made during the course of the year.

[Question] Some journalists and economists speak quite strongly about food being the "atomic bomb of the 21st century." Will this "bomb" be a danger to Poland also?

[Answer] As I said earlier, the professionals feel that we are able to feed ourselves. If we are able to guarantee a balance of payments in foreign trade in farm-food commodities, then economic security will also be guaranteed.

There now is a surplus of food in the world. If there are any shortages anywhere, they are due to inability to purchase it--a lack of foreign exchange. But we must realize that the world's population is growing at a very rapid rate. Not too long ago there was only a little over 3 billion of us and today there are more than 4.5 billion and the population is still increasing. Thus the problem of food is becoming important. If we look at the problem in this context then it is easy to understand that the matter of balancing payments and self-sufficiency in basic food commodities demands a favorable and quick solution, because those countries which are dependent on food imports, and particularly the impoverished countries, may in times of crisis become the object of external pressure and manipulation.

#### AGRICOOOP Director Comments

Warsaw ZYCIE WARSZAWY in Polish 7 Feb 85 pp 1, 2

[Interview with Boleslaw Genda], managing director of the AGRICOOOP Export and Import Enterprise, by Henryk Chadzynski; date and place not specified]

[Text] [Question] Henryk Chadzynski: AGRICOOOP is one of the newest enterprises to receive a license in the agricultural subsector for foreign trade. We know that competition in this field is strong. How, then, do the first efforts look?

[Answer] Boleslaw Genda: AGRICOOOP began its foreign-trade operations in 1984, although it received its license somewhat earlier, but the first few months had to be spent on organizing the work, establishing contacts from the ground up, and setting up a network. We closed out the first year with exports valued at \$3 million. That was the net income from sales for cash, that is, with no compensation from the so-called "second area," because our license is only for the capitalist countries.

[Question] Perhaps you can describe the circumstances which led to the farm production cooperatives' desire to involve themselves directly in export?

[Answer] AGRICOOOP was formed as a result of the initiative of 55 farm production cooperatives. The idea was born in Warsaw but later a few dozen more production cooperatives from throughout the country joined. They know that they can produce for export by expanding their cultivation of fruits and vegetables as well as other items and by using the cooperatives' processing plant. The foreign-exchange allowances that they obtain from sales are the main appeal of this kind of operation because they can then count on the indispensable import of such items as the latest varieties of seeds, necessary apparatus, tools, and transportation equipment.

[Question] Thus our central establishments have gained one more competitor. How does AGRICOOOP differ from the other organizations which were involved in selling green commodities abroad earlier?

[Answer] We do not want to be competition for anyone. We see our role as being rather small. Nor do we wish to grab commodities that someone else has.

We would rather organize production from scratch, to fill in the blank spaces on the export map. One difference, too, is the fact that foreign trade is only one of AGRICOOP's functions. It is, after all, a service organization for the production cooperatives and has many departments. It establishes retail trade in Poland, has its own office, is involved in investing and planning--in short, it is an important production establishment. The farm-production cooperatives have 132 fruit-and-vegetable processing plants, each of which processes an average of approximately 2,000 tons of rawstuffs annually.

[Question] What is, or actually will be, the main domain of your export?

[Answer] Our export is very diverse, beginning with fresh fruits and vegetables, on through pulp, pomace and frozen foods, ending with concentrates and even potted and cut flowers. We will try to greatly expand our production potential and to produce and sell that which had not been exported before. And we will go into those areas in which agriculture did not previously concern itself with orders for foreign purchasers. In order to do this we intend to make use of foreign-exchange allowances as well as the commitment of foreign capital. For example, we are now negotiating for the production of large quantities of mushrooms in pigpens not being used by a foreign firm. We are involved in the cultivation of asparagus. We have purchased seed abroad for some production cooperatives and in 3 years we will have goods for export.

[Question] Aside from trade in crop products do you also intend to expand processing for export purposes?

[Answer] You know that we recently had a surplus of commercial apples. We want to get into the apple business by processing and exporting apples in the form of apple sauce. This requires outlays but it is very profitable. There is a great future in this. Also, as we expand fresh-water fish farming it may be possible to sell our surpluses. RYBEX, the foreign-trade enterprise which deals with fish and fish products, is not very enthusiastic about handling small quantities, but for us every such marginal case may be an opportunity.

[Question] On what, at present, does the growth of export depend?

[Answer] I believe that most important of all is efficient management of the commodities which our cooperatives now produce. To this end we have organized export facilities in several areas of the country. We also want to help the producers by importing what is absolutely indispensable to them. Sometimes the elimination of such a bottleneck pays for itself many times over in the form of a large increase in production and export. Our work is just beginning. This year we plan to double export to about \$6 million. But I still believe that this is still just the beginning.

#### Prospects for Rape Exports

Warsaw RZECZPOSPOLITA in Polish 12 Feb 85 p 2

[Text] Good rape harvests last year make it possible to export large surpluses. We are exporting not only seed and oil but even rape cake, which somehow our



farmers do not favor but which is regarded abroad as a valuable high-protein ingredient in forage.

Last year we exported 56,000 tons of rape, mainly to the West European markets and to Bangladesh and Yugoslavia. This brought more than \$16 million into the foreign-exchange treasury. We sell rape oil, on the other hand, mainly to India and Yugoslavia. Certain quantities of highly refined oil are also sold at favorable prices to the United States, the FRG and Japan, where it is used for engineering purposes. All in all, we sold 36,000 tons of oil, obtaining approximately \$22 million in return.

The lowest item in export is the cake--36,000 tons for slightly over \$3 million. But what is interesting is that it is purchased from us by those countries whose animal husbandry is the most advanced: Great Britain, Holland, Denmark and the FRG. The farmers in those countries believe it to be an excellent ingredient in forage, and furthermore, it has one more advantage: it is cheaper than the rape cake imported from the other side of the ocean.

According to the managing director of the foreign trade enterprise ROLIMPEX, J. Giedwicz, in 1985 the high prices for rape oil on the world market should hold firm. Therefore, if this year's harvests make it possible to produce additional amounts of rape, rape oil, and rape cake for export, the profits will be considerable.

Polish consumers have a much higher opinion of soya oil, but it has been impossible to obtain for several months. According to Mr Giedzwicz, this is not due to a lack of raw materials. The amounts of soya imported by ROLIMPEX should be sufficient to fully cover the demand for soya oil on the marketplace. It is simply that the fats industry first processes our own rape while the soya waits its turn in the warehouses. But there is some comfort in the fact that we can expect an improvement in the availability of soya oil in the shops in the coming months.

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PLANNED VS MARKET ECONOMY DEBATE FEATURED IN CATHOLIC PRESS

Warsaw PRZEGLAD KATOLICKI in Polish No 6, 10 Feb 85 p 4

[Article by Ryszard Bugaj: "A Different Key"]

[Text] Despite the title of Adam Lipowski's article,<sup>1</sup> the postulate of a market economy is currently no longer so suspect that its expression and public defense would not be possible. In any case, things used to be worse in this regard. It suffices to recall the "discussion" which was carried on in 1968 with "market advocates" [rynkowcy] (who were so reticent at that time). It is easy, even today, to point out postulates which are considered more suspicious--if only to mention socialized planning. I do not rule out the possibility that after a certain period of time the market postulate will again become suspect. However, for the time being one can, I would think, criticize "market extremists," apart from nonsubstantive contexts.

I agree, of course, with the opinion that the broad-scale introduction of market regulation should constitute an essential element of the reform program, next to self-government and the package of changes which create conditions for effective control over central economic decisions. However, the issue of the extent of market regulation and of the possibility of its effective implementation on a broad scale under the current Polish conditions seems debatable to me.

If I have understood Adam Lipowski correctly, he assigns--ultimately, at any rate--a nearly omnipotent role to the mechanism of market regulation. The market is supposed to regulate not only the current allocation of production factors but, in principle, also the developmental processes as a whole. Therefore, an analogous--and in some fields even a more universal<sup>2</sup>--range of market regulation than in Western European countries is assumed. Thus, a general question comes to mind which interests me solely in its pragmatic aspect: Can such wide-ranging market regulation be efficient in an economy where the work forces of socialized work establishments and, to a certain degree, the state appear in the role of entrepreneurs?

I believe that, in general, the consequences of this subform [podmiana] of organizational units of market regulation are underrated. It must lead to the formation of a certain institutional hybrid. I presume that in such a "hybrid" system the problem of motivation would appear in full force.

Thus, the universal concept of market regulation assumes, as acknowledged by Adam Lipowski, great fluctuations and a high degree of differentiation in the income of economic organizations. The existence of these variations is a strong stimulus for activity in the private-capitalist market economy. However, this differentiation is transferred, to a very limited degree, onto the income of workers. In a socialized<sup>3</sup> economy which is subjected to the regulation of a free market mechanism, the differentiation would, out of necessity, have to appear in the form of a strongly differentiated and fluctuating workers income. Is this possible and desired?

It should be remembered that from the point of view of individual workers, this would in general be unjust differentiation because it would often be totally independent of their qualifications or individual work input. It is difficult to regard this as a positive situation. From the point of view of worker incentive, it is difficult to deny that such a situation would have to lead to the frustration of large groups of workers and to opposition to that system.

It should also be kept in mind that wages should not be looked at solely through the prism of their motivational functions. Equally important is the fact that wages define in a decisive manner the financial situation of households. In countries which find themselves at a relatively low level of economic development (this includes Poland), wages determine basic living conditions. In this situation, strong differentiation and wage fluctuations must be met with a particularly high degree of opposition from the public. After all, this is rational opposition because strong differentiation strikes out the principle of an even start and, in this sense, also does not promote economic development. This may be prevented to a significant degree through the expansion of the state's protective functions but this would simply mean that the problem which we had thrown out the door has come back through the window.

Another problem is the problem of risk. In an economy which uses market regulation also in the area of developmental processes, the issue of risk is of great importance. Enterprises must at exclusively their own risk make decisions about the expenditure of at times large funds for uncertain ventures which promise results with a great deferment in time. Would work forces be inclined to make such decisions at their own expense, would they be willing to give up today part of their wage income for an unsure compensation in several or even in a dozen or so years? A condition for this would be the permanent affiliation of workers with a given place of work.

This does not seem either possible or useful. And again, certain preventive measures are available here in the form of a properly defined tax system. Progressive taxes may even be "set up" in such a way that they will function like rigid restraints. But, after all, this does not signify anything more than the limiting of the market's regulating functions. The problem then comes down to searching for the most advantageous forms of limiting market controls. This is a very important problem but one that is of a different nature.

Let us still remain for awhile within the sphere of incentive problems which are of key importance to the economy. Thus, it is undoubtedly the case that motivation is effective if the ratio between effort and effect is generally approximate. It is difficult to expect intensive efforts on the part of enterprise work forces both when the chance for the implementation of aspirations is minimal as well as when the enterprise is already sitting on a large sack of money. However, one may expect such situations to come about if market control is not restricted, for example, through a developed tax system. The alternative in the form of a capital investment market in which enterprises would invest excessive funds is, I would think, generally speaking superficial. If the work forces decide about the distribution of an achieved surplus, then there must be a strong preference for current wage incomes which could be opposed only through the creation of conditions for very attractive investments, which is, however, only another form of stuffing the said sack of money. The promoters of the creation of a capital investment market, analagous to the one which exists in Western countries, expect results similar to those obtained there, but they forget that over there decisions about the distribution of enterprise incomes are not decisions of the work force.<sup>4</sup>

Incentive issues do not exhaust the potential difficulties which are encountered by the attempt at setting up an omnipotent market mechanism. It appears that the issue of competition emerges here at the head of the remaining barriers. It guarantees effective market verification of costs and of the quality and updatedness of products.

We are dealing with the following situation: in a modern economy, especially in a country the size of Poland, the possibility does not exist of establishing effective intrabranh competition in a great number of branches of the economy, if international competition is excluded. The forcing of competitive structures must lead to the loss of advantages associated with the concentration of production, testing, etc., and by no means necessarily guarantees the creation of competitive interactions. The antimonopolistic law used in these conditions as a fundamental tool cannot be effective. That which we know about the informational monopoly of enterprises functioning in an command-type system should serve as a warning. It is also worth remembering that if the antimonopolistic agency were to be given very extensive powers, it would have to intervene in a discretionary manner, thus disturbing enterprise autonomy. This last dilemma appeared in the course of work on the antimonopolistic law. Adam Lipowski is right in claiming that competition on the basis of production quality is easier to set in motion. This is a matter of substantial significance. However, it would be difficult<sup>5</sup> to expect price competition, and in the ranks of branches one cannot even count on quality competition. Such a situation must exist most likely for as long as the economy does not find an international market in the field of influence. It simply is not enough to change the rules in this case. It is necessary for imports to be high in relation to domestic production. However, the current situation is lamentable.



It suffices to say that in terms of one inhabitant, Poland imports probably the least of all European countries (\$290, whereas the FRG--\$2,560; Hungary--\$796; the Netherlands--\$4,288 and the GDR--\$1,290). Nearly two-thirds of these imports come from outside the free foreign exchange zone. Of course, nearly all the imports are complementary in relation to the domestic products and not substitutional. Therefore, there can be no question of competition.

The relationship between the above-cited theoretical arguments and economic practice is also complicated. The Yugoslavian economy is a good example of how conflicting conclusions can be derived from the same experiences. The crisis in this economy, although not as spectacular as in Poland, is indisputable. It is enough to take into consideration the fact that complete stagnation of real wages exists there (a 2 percent increase in 12 years!); that it has one of the highest unemployment rates in Europe--in 1982, according to official data, it amounted to 12.4 percent despite the large job-related emigration; a huge foreign debt; very high inflation--a 10-fold price increase in 12 years and recently, stagnation of the national income. However, in the Yugoslavian economy mechanisms of market regulation have been set in motion on the broadest scale. I am not claiming that the results of the Yugoslavian economy have the value of a deciding argument in the controversy about the possibility of using a broad market mechanism in the socialized economy. I also believe that to a certain degree it is rational to explain this lack of success with the fact that in Yugoslavia this market mechanism was not used very consistently. However, the entire point of the matter lies in the question of whether it is possible to force certain institutional barriers and really use the market mechanism consistently. For various reasons, there existed very favorable conditions in Yugoslavia for the implementation of this endeavor and yet, for the time being, there can be no talk of success. I believe that this indicates at least that the barriers against the implementation of wide-scale market regulation are rigid.

In emphasizing the point about the barriers of the market mechanism, I was inclined to accept an attitude of humility. However, in passing on to Adam Lipowski's postulate of "commercialization here and now," I feel that the formulation of more categorical opinions is admissible.

The point of departure for the evaluation of the postulate of establishing broad-scale market regulation in the very near future must be the recalling to mind of the conditions in which this would have to be done. Unfortunately, it is necessary here to emphasize at least the following factors: the still existing large monetary market imbalance, inadequate supplies of raw and other materials in relation to the production potential of fixed assets (as well as work), large capital investment freeze and involvement, and at the same time a rapidly (but unevenly) growing depreciation of fixed assets, and a particularly sharp deficit of consumer goods (producer as well as capital goods) from imports.



All of these factors together determine the huge disproportions of the economy whereby there are reasons to assume that some of these disproportions, even in a situation conducive to development, will be for all practical purposes impossible to eliminate in a matter of the next few years.

However, despite everything, other factors have greater significance. What I have in mind is the basic difference between the enterprise situation and the prospects of economic growth in the next several years, and particularly real wage increases.

This last issue requires an immediate explanation. Thus, I am assuming that even under favorable circumstances the prospect of the stagnation of average real wages should be expected in the next few years, at which time this will occur directly after the period during which real wages will have decreased by one-fourth. Meanwhile, the broad-scale initiation of the market mechanism assumes a significant increase in wage differentiation. A more considerable increase in the wages of a small portion of the employed would have to, in these conditions, lead to a drop in wages of the majority of those employed. Aside from the social consequences of this fact, the motivational consequences should be kept in mind because a great majority of employees would find themselves solely under the pressure of negative stimuli.

Under the existing conditions, what would be the probable consequences of radical "marketization" of the economy by way of generalizing agreed upon prices and introducing a commercial rate of foreign exchange? Most certainly, during the first period there would have to occur a substantial differentiation of the income situation of enterprises and, most likely, bankruptcy of a considerable portion of them, and consequently marked differentiation of wages and unemployment.

Therefore, there is unfortunately no reason to maintain that a new income stratification would reflect the rational efforts of enterprises. Under conditions of acute disproportions which exist at the starting point, this factor would have a limited meaning. To a significant degree, income success would be the consequence of an enterprise's position on the market.

Even assuming (this being an exceptionally unrealistic assumption) that, as a result of the primary, chance differentiation of income, there would not be any intervention aimed at at least reducing wages disproportions, it should be expected, nonetheless, that an uncontrolled inflationary process will occur for at least as long as the major disproportions are not substantially reduced. This process may prolong itself because, among other reasons, it will be disturbed by very many enterprises in relation to which price competition will not be effective.

It is a very dangerous thing when under conditions of high inflation the rational operation of enterprises is in reality impossible. In treating this hypothesis as a real threat, the possibility of rational market selection of "frozen" capital investments should also be questioned.

However, I suspect that these are all exaggerated fears. It appears that the experiment of radical "marketization" would simply not last long. Its outcome would have to be the uniting of controversies of hard "hit" large groups of workers and reluctance of a fundamental part of the authority apparatus toward reform. This could end not only with a rapid breaking of the new market rules but even with the total rejection of any kind of real reform. The theoretically possible variant of "holding over" by the authorities (consolidated around the program of "radical marketization") of the first period of this operation assumes, I believe, the use of measures which would effectively prevent social controversy with all of its consequences.

In the present Polish situation, it is easy to criticize every economic program. It is more difficult to say what should be proposed instead. However, it is fitting at least to show tolerance.

My personal, amateur diagnosis prompts me to emphasize the thesis of balanced reform, i.e., one that is equally for self-government, "socialization" and market regulation. However, in the current situation there are considerably fewer (strictly objective) obstacles to progress in the field of "socialization" and self-government than there are in the market arena. If changes in these first two fields were to be implemented consistently and in accordance with the reform program passed in 1981, then one could expect both certain direct effects and the gradual surmounting of the barriers of market regulation.

The main hope is a change in the attitude of workers toward the national economy and toward their own places of work and the formation of conviction about the concurrence of workers interests with the interests of these organizational units. The result of this would probably be the emergence of a certain "margin" of directly noncommercialized worker activity and of joint social effort in overcoming the crisis, whose existence, after all, threatens the most fundamental national interests. This is not in conflict with the use of financial incentives if the formula of aggressive incentives which sharply polarize the material situation of workers' groups is dispensed with. Instead, the significance of these noncommercialized actions may be particularly great during the 1980's because there is no possibility of high pay for intensified workers' efforts.

A second potential effect of "socialization" and self-government is the significant improvement in the soundness of central economic decisions. There is no need to explain how important this matter is.

And finally the issue of market barriers. If valid central decisions had been made during the last few years, then there would currently be better conditions for expanding market regulation and, at any rate, it would be possible to expect that this range of market regulation, which had already been introduced, would function more efficiently.

Two key issues should be pointed out above all: capital investments and monetary-market balance. Considerably more rapid progress was possible here. However, a condition for this was to overcome pressure groups which operated, often covertly, within the framework of the economic system. As may be expected, under their influence the strategy was adopted of restoring market balance by way of raising prices on the most basic goods and services (particularly food), while at the same time prices of imbalance remain on goods of a higher order, thus creating privileges for well-situated people and guaranteeing a splendid existence for speculators. This strategy arouses fundamental reservations not only for social reasons but also because it is not very effective. Constant price increases on basic goods cause and must cause pressure on income growth. It is extremely characteristic that between 1982 and 1983 the price level rose by nearly 2.5 times, whereas the balance between finances and the market improved insignificantly. The situation is particularly bad on the industrial goods market, i.e., where the implementation of market regulation could bring the greatest results.

The situation is similar with capital investments. The package of unfinished investments from the 1970's has been insignificantly pared down while the new decisions (e.g., the 900 billion zloty metallurgical program!) also arouse doubt. Consequently, as a result we have additional inflationary pressure and extremely limited possibilities of investment by enterprises on the basis of market account parameters.

In addition, there is the indifferent, at best, attitude of a vast portion of workers toward reform and toward the economy in general. Thus, a vicious circle is created and the reform deadlock continues. I do not agree with Adam Lipowski's view that this deadlock can be broken by means of the radical "marketization" of the economy in the currently existing conditions. The range of market regulation should increase in proportion to the elimination of basic disproportions. That is when the market can become a factor that additionally stimulates the process of their removal, particularly if parallel to this workers' attitudes change favorably. Therefore, I feel that currently the key to the economy is policy. Only institutional changes in this realm and a change in the workers' (and civic) attitude create hope for the improvement of economic policy. Without this, it is difficult to count on breaking down the barriers to market regulation.

#### FOOTNOTES

1. "Market Economy--A Suspicious Topic?" PRZEGLAD KATOLICKI, No 3/85.
2. What I have in mind is the postulate of explicitly basing workers' wages on the shape of the income of the employing enterprises.
3. The term "socialized economy" is used very inexplicitly. The meaning often depends on who uses this term. Here, I make the assumption that a socialized economy is an economy which possesses institutional mechanisms of influence by society as a whole on central economic decisions, by work forces on enterprise decisions, and by the people in a given district on the decisions of local authorities. In accordance with this interpretation, the term "centrally managed economy" is not a synonym for "socialized economy." I am not going to elaborate more extensively on the issue of the central plan because Adam Lipowski did not do so, either.
4. A mistaken impression may be formed here that a certain category of problems would be easier to solve if it were not for the self-government by work forces which is assumed in the reform. It is possible to meet economists who believe this. Personally, I am convinced that without self-government with broad powers there can be no realistic talk whatsoever about even a limited relationship between workers' wages and enterprise results. Of course, it is possible to present a long list of other arguments in favor of the adoption of a self-government solution.
5. There is a lack of more extensive research on this subject with reference to the Polish economy. However, Prof Jan Lipinski's studies (see EKONOMISTA No 3, 1983) evoke considerable skepticism.

9853

CSO: 2600/632

POLAND

## CRITICISM OF PLANNING COMMISSION LAW DRAWS FIRE

Commission as 'Whipping Boy'

Warsaw ZYCIE GOSPODARCZE in Polish No 8, 24 Feb 85 p 10

[Article by Ryszard Cwiertnia: "Concerning the Functions of the Planning Commission"]

[Text] I followed with great interest Cezary Jozefiak's articles in ZYCIE GOSPODARCZE, Nos 4 and 5, "Prices, Rationing, and Wages" and "The Structure and the Functions of the Central Administration," in the series, "The Balance Sheet of the 'Interim Period'." They contain many valuable remarks which could and should promote the process of the on-going shaping of the operative system of our national economy. I concur with a considerable part of his critical remarks about the state and the course of the implementation of the economic reform. At the same time, I find it hard to accept some of the writer's arguments. This is true in particular of what he writes about the functions of the Planning Commission. I think that in this area the substance of his article reflects some opinions acquired much earlier, which hold the Planning Commission responsible for all the failures of the economy, that it is the proverbial "whipping boy." His article condemns not only the activities of the central organ, but also the still novel regulations (the July 1984 law) which determine its legal status. Thus it might lend support to the view that the new law bodes no hope for any improvement, and even poses a threat to the economic reform.

Let us look more closely at the charges contained in the article. The first charge raised against the law claims that--I quote--"It does not define the rights and the duties of the Planning Commission as far as the preparation of draft central plans is concerned. We find instead non-binding, generalized tasks. The organ, therefore, 'initiates, directs, and supervises actions' related to planning (...)." And how does it really appear?

The duties related to planning have been defined in detail in the 26 July 1982 law on socioeconomic planning. Article 29, paragraph 1 of this law states: "The duties of the Planning Commission of the Council of Ministers include preparation of drafts and analyses for long-term plans, national socioeconomic plans, and central annual plans. Ministers,



central cooperative associations, and provincial governors will coordinate in this area with the Planning Commission of the Council of Ministers." Paragraph 2 specifies those tasks. Articles 6 and 9 of the law on the Planning Commission of the Council of Ministers define the duties of the Presidium and of the chairman of the Planning Commission, while the 3 August 1984 decree of the Council of Ministers sets up in detail the tasks of the Planning Commission of the Council of Ministers, its Presidium, and the chairman of the Planning Commission. Would it be possible that Cezary Jozefiak, in writing about the Planning Commission, failed to acquaint himself with all the regulations which deal with it? It does not seem possible.

The next charge concerns the right of the Planning Commission to determine, analyze, and assess compliance with the planning principles and the results of the planning procedure: Cezary Jozefiak regards this as a threat to the autonomy of the enterprises.

To begin with, let us clarify what we understand by principles (of planning). I suggest an explanation which follows the Dictionary of the Polish Language: "Principle--a thesis whose substance contains a law which determines some processes; a base which supports something; a rule." What, then, are we to understand by planning principles? Mainly the substance of the economic terms used in planning and the mode of their expression, as well as the forms and the mode of coordination between various organizational units in the planning process. Would such principles harm the reform?

Article 19 of the socioeconomic planning law states that units of our socialized economy make data contained in the plans accessible to organs of state administration, as well as to banks and organs of state supervision; article 17 of the same law deals with the possibility of obligating some enterprises to prepare 5-year or long-term plans. In 1982-84 the flow of information between units which jointly prepared the central plans was well organized, proceeded according to fixed rules, and posed no threat to the autonomy of the enterprises. At present, after being prescribed by the Planning Commission law, it becomes--according to Cezary Jozefiak--dangerous! There is something wrong here.

Another threat to the reform pinpointed in the article stems from granting the Planning Commission some influence over shaping the operative system of the economy, as well as over the level and the relationship between instruments and parameters which ensure the functioning of the economic policy. Indeed, the Planning Commission has excessive demands! It is not happy with the law which makes it responsible for the coordination of socioeconomic plans and financial plans, for proper growth ratios, for countrywide land-use plans, for cohesion between the various elements of the socioeconomic policy; it would also like to affect the machinery and the instruments of the functioning of the economy!

Does Cezary Jozefiak actually believe that a permanent separation between the organs which shape the system of functioning and those which formulate economic policy is the proper way to streamline the guidance and the management of the economy? He sees another threat looming from the composition of the not yet appointed Planning Commission as a collective body--without knowing the future correlation of forces between representatives of the supreme and central organs of state administration and the remaining members. Cezary Jozefiak indicates that the former will be in the majority. But what if it is the other way round?

It should also be recalled that the statute of the Planning Commission, endorsed in the 7 September 1984 decree No 28 issued by the chairman of the Council of Ministers, provides that decisions will be made, and motions voted, by a simple majority of Planning Commission members, with at least half the membership present. Irrespective of the voting results, those Planning Commission members who disagree with the motions passed may record their dissent in the minutes. Whence, then, the anxiety that the central plan might prevail over the system and its instruments? And, finally, is it really sinful to aim at safeguarding the cohesion between all the elements of the functioning system of the economy?

Another charge against the law concerns the right of the chairman of the Planning Commission to issue decrees and regulations (article 7, and not--as the published article has it--article 9), as well as the duty of the supreme and central administrative organs to coordinate with the chairman of the Planning Commission all the decrees and regulations liable to modify the provisions of central plans (article 10). Clauses of these articles are thus interpreted as the abandonment of the staff-like character of the Planning Commission and its imposition as the decisionmaking organ, superior to other central organs.

The mode of interpreting regulations is an individual matter, but the civil code provides that whoever implements the law has to determine the proper sense of the regulation through legal commentaries. Article 7, paragraph 2 of the Planning Commission law clearly states that the chairman of the Planning Commission issues decrees and regulations based on the laws and ensures their implementation; there can, therefore, be no mention of any "general entitlement" to issue regulations. On the other hand, article 10 does not provide for any superiority of the chairman of the Planning Commission over ministers and heads of central offices, but only expresses concern for the protection of the general social interest as formulated in the central plans, protection against the contingency of its being violated by the interests of ministries, regardless of whether they are branch or functional ministries.

A similar concern relates to the interpretation of the rule which grants the chairman of the Planning Commission the right to define the methodology of calculating economic effectiveness and the methodology of assessing

the functioning of units of the socialized economy; here Cezary Jozefiak implies "continuation of the bureaucratic procedures which distort the image of our economic reality and allow arbitrariness in the selection of criteria for decisionmaking and assessment."

In commenting on a part of Cezary Jozefiak's article, I would like to add that the economic reform is based on compliance with law. Consequently, whatever undermines the law, including laws just passed, results in undermining the reform itself.

P.S. It might be nice if Prof Cezary Jozefiak would acquaint himself with the assessment of the Planning Commission law, prepared by Task Force 10 of the Commission for Economic Reform; it can be found in the article by Irena Dryll, published in the same issue (No 5) of ZYCIE GOSPODARCZE.

#### Commission No Threat to Reform

Warsaw ZYCIE GOSPODARCZE in Polish No 8, 24 Feb 85 p 10

[Article by Marek Rosa: "Improper Condemnation"]

[Text] ZYCIE GOSPODARCZE (No 5, 3 Feb 85) published an article by Cezary Jozefiak, "The Structure and the Functions of the Central Administration," part 2 of the series "The Balance Sheet of the 'Interim Period'." Some of the writer's claims and arguments force me to define my attitude to this article.

According to Cezary Jozefiak, that part of the reform program which deals with the state economic administration is directed mainly against the branch structures. The abolition of the branch structures, the reduced scope of distribution, and the enhanced role of the functional ministries and banks would implicate actions conforming to the principles of autonomy, self-management, and self-financing of enterprises. As the writer points out, we are still far removed from such a reorganization of the central institutional system. The entire economic system is therefore in danger.

Cezary Jozefiak clearly pinpoints the source of this danger: the Planning Commission of the Council of Ministers, whose functions have been defined by a law passed less than half a year ago. He devotes therefore nearly half of his paper to this law and to other legal documents which affect the Planning Commission.

Unfortunately, this is not the first time that--even before the ink has had time to dry on their new text--some regulations have been criticized and undermined. This does not serve well the desirable cause of stabilization of the solutions agreed upon. It might be just as well to recall that there had been ample opportunities for prior discussion on the matter. The preparations for the Planning Commission law went on for many months. One draft after another was widely

discussed and consulted, inter alia, with recognized experts in economic and legal studies, as well as with socioprofessional organizations and creative communities; the law was closely coordinated with the government's plenipotentiary for economic reform, and was debated at a joint session of Sejm commissions for legislation and for plan, budget, and finances, as well as at several sessions of an ad hoc committee appointed by those Sejm commissions. The law, therefore, does not reflect just "certain tendencies," nor has it been the brainchild of some "narrow bodies." It reflects the views of broad representatives circles of our society, and conforms to the standpoint of our supreme authority, the PRL Sejm.

What, according to the writer, is the main danger of preserving the centralized methods and instruments of management? First of all, the fact that instead of the much more profound organizational and functional reconstruction of the economic administration "the central organs in their present form are supposed to adapt the operative methods and instruments to the requirements posed by the autonomy of the enterprises". Let us begin by stating that Cezary Jozefiak has no doubts that enterprises are indeed autonomous. Their autonomy, however, is being threatened by the central administration, in particular--as he argues later on--by the areas of competence and functions of the Planning Commission. It is hard to avoid the impression that the perceived autonomy of the enterprises becomes a party to the conflict between the enterprises and the state administration organs. The weaker the central administration, the better for the enterprises; the stronger the administrative organs, the less scope for autonomy is left to the enterprises.

Such an understanding of the autonomy of the enterprises does not conform to the basic principles contained in the laws which have introduced the economic reform. For instance, the 25 September 1981 law proclaims in article 2: "State enterprises (...) engage in autonomous activity which conforms to the goals of the national socioeconomic plan." On the other hand, the 26 February 1982 law on socioeconomic planning states in article 5 that "central plans (...) impose on the state administration organs the duty to influence (...) enterprises (...) in order to secure the implementation of the tasks defined in those plans." This means that the autonomy of the enterprises cannot be treated as a goal per se. The situation of an enterprise as the elementary link in the organizational system of the economy can be further enhanced when the interests of the society as a whole, as reflected in the central plans, are taken into account.

The Planning Commission law, passed in July 1984, follows the fundamental laws which introduced the economic reform. Contrary to Cezary Jozefiak's arguments, it does not reflect any tendency to preserve centralized management. At that time there was no doubt that the law was intended to safeguard the strategic role and the rank of central planning in running the economy. There are, therefore, reasons to confirm the anxiety of the writer who--after having noted that the suggestions of the Planning



Commission are draft government decisions--states that "one can expect those drafts to reflect a strong tendency to subordinate the system and its instruments to the goals of the central plan." Yes, this was indeed the intention. But is it really bad? Does Cezary Jozefiak believe that plans of socioeconomic development should really be subordinated to the economic system and its instruments?

Ascribing to the Planning Commission many features it does not really possess, Cezary Jozefiak resorts to arguments, at least some of which call for explanation. He writes ironically: "...the law promises that the autonomy of the enterprises would not be reduced despite the supervision from above over their compliance with the planning rules imposed by the Planning Commission (article 9, point 3)." Well, it is easy to verify that article 9, point 3, which the writer refers to, does not deal with "supervision from above" but defines the chairman's duty "to analyze and assess" compliance not with the rules imposed by the Planning Commission, but with the "principles of socioeconomic planning." The principles have been defined by the law on socioeconomic planning, and their appropriation by the Planning Commission--as the writer suspects--would mean appropriation of the areas of competence of the Sejm.

Since Cezary Jozefiak would not admit the Sejm's right of decision, he follows with another statement about the danger that might threaten the reform in case the Planning Commission assumes the role of "shaping the operative system of the economy and determining the level and the relationship between instruments and parameters which ensure the functioning of the economic policy," as well as the foreseen appropriation by the Planning Commission of the areas of competence of the government's plenipotentiary for economic reform.

The socioeconomic planning law states in its article 1 that "the economy of the PRL is a planned economy, derived from the socialist economic system. The functioning and the development of the economy are regulated by (...) a system of plans (...) which actively shapes the economic development, with recourse to the market mechanism." The Sejm, having appointed the government's plenipotentiary for economic reform, nominated him for the entire interim period, that is to say, the period of formulating the fundamental principles of the economic reform, the economic and financial mechanism and instruments, and their implementation. The Planning Commission, as a staff-like organ of the government, suggests now, and will suggest in the future, such solutions within the framework of preparing central plans, which will create the possibility of cohesive influence by the functioning economic system and by the economic policy on the achievement of goals set up in the long-term plans of socioeconomic development. The composition of the Planning Commission, as defined by the law, provides the safeguards that the suggestions thus prepared will not have any branch or "centralizing" character. In addition to people on whom Cezary Jozefiak focuses attention by invoking article 3, paragraph 2, point 1, the commission will also include administrative, economic, and civic leaders, appointed in accordance with article 3, paragraph 2, point 2.

In order to place the Planning Commission in a more convenient branch-centralized "whipping" position, Cezary Jozefiak claims that the commission will "continue as a decisionmaking body, hierarchically placed above other central organs." In his opinion, evidence for his claim is to be found in "(...) granting it a general entitlement to issue decrees and regulations," as well as obligating "(...) other central organs to coordinate with the chairman of the Planning Commission all drafts of their decrees and regulations of economic impact."

This is rather tricky argumentation. Every supreme organ of state administration--and the Planning Commission among them--has the right to issue decrees and regulations. It is not, however--contrary to Cezary Jozefiak's claims--a general entitlement. The law clearly defines the rights of the chairman of the Planning Commission in that area, stating:

--in article 7, paragraph 2 that "the chairman of the Planning Commission, following the laws and to ensure their implementation (...);"

--in article 8, point 1, "(...) determines by decree: a. the rules for the preparation of draft central plans; b. the methods of economic calculation of effectiveness and the methodology of assessing the functioning of units of the socialized economy."

Concerning Cezary Jozefiak's argument that other central organs have been obligated to coordinate their decrees and regulations of economic impact, thus placing the Planning Commission in the role of a super-ministry (the term was used by Cezary Jozefiak in an interview published by PRZEGLAD TYGODNIOWY, No 3), the provision of article 10 of the Planning Commission law should be recalled. According to that provision, the supreme and central organs have indeed been obligated to conduct prior coordination of decrees and regulations issued by them, but this concerns not--as Cezary Jozefiak would have it--all those of economic impact, but only "(...) those which affect the modification of provisions contained in the central plans." The provision was intended to draw a lesson from the bad experience of the 1970's, when the lack of such entitlement granted to the Planning Commission resulted in economic voluntarism and in destroying the plan through an avalanche of incidental decisions made from either branch or particularist points of view. It also means recourse to a similar earlier solution, which grants the same rights to the minister of finance in relation to budget executors. The evidence which denies that such an entitlement indicates "hierarchical placement" of the Planning Commission can be found in the following part of the same article of the law--deliberately omitted by Cezary Jozefiak--which provides that "uncoordinated divergences are settled by the Council of Ministers." This refers not to a command, but to coordination between equal partners.

Cezary Jozefiak's bias appears with particular clarity when he discusses the role of the Planning Commission in determining the methods of economic calculation and methods of assessing the functioning of units of the socialized economy. He criticizes the right of the chairman of the Planning Commission to "(...) impose mandatory rules" of planning the functioning of enterprises. According to Cezary Jozefiak, it portends "(...) preservation of bureaucratic procedures which distort the image of the economic reality, and allows for /arbitrariness/ (emphasis added--MR) in selecting the criteria of assessment."

Cezary Jozefiak supports the thesis that "(...) functional planning is an internal need of the enterprise," and that the central planning organ should therefore keep aloof of such activity. He assails the Planning Commission law because it has left "(...) an open road for assessing the enterprises according to /differentiated/ and /variable/ (emphasis added--MR) rules and guidelines. Along that road there is no way to avoid voluntarism in administrative decisionmaking, deranging the economy and blunting the edge of incentives for improved efficiency."

It is a pity that Cezary Jozefiak did not set forth any matter-of-fact arguments against the preparation of methods of economic calculation or against the methodology of assessing the functioning of units of the socialized economy. He would have been probably hard put to find such arguments. The problems of objectivization in assessing the functioning of the enterprises, and of creating the necessary rational premises for the economic calculation, have been--and still are--dealt with in the ongoing preparations. Their urgency has been widely recognized. The Government Presidium, at its session on 17 December 1984, discussed the "Premises for a system of assessing state-owned enterprises," submitted by the government's plenipotentiary for economic reform and published on 31 January 1985 in the RZECZPOSPOLITA supplement, REFORMA GOSPODARCZA, No 50.

Advocating his thesis concerning the threat which the Planning Commission law poses for the economic reform, Cezary Jozefiak distorts not only the legal placement of the Planning Commission but its practical function as well. According to him, the expectations that "(...) the organizational structure of the Planning Commission, where the present branch criteria still prevail, will be reconstructed," have failed. That is not true. To enhance its general economic functions and to safeguard the supremacy of the economy as a whole, not of its various branches, some organizational changes in the Planning Commission have already been introduced. As a result, only 6 out of the surviving 37 organizational units of the commission have retained their branch character, while 3 others act as branch teams solely within defined limits. The Planning Commission has already handed over all its decisionmaking rights to the appropriate central organs. Considerable effort has been made to replace the arbitrary elements by systemic solutions within the framework of the central annual plans. The Planning Commission, as a staff-like organ of the government, focuses mainly on studies, prognostication, programming,

and analyses. Contrary to Cezary Jozefiak's claims about the traditional doctrine of planned economy which "(...) gives preference to material (quantitative) variables over financial ones," the principle of close linkage between material and financial planning is being implemented. This trend has been recognized as a necessary element of the enhanced effectiveness of central planning and of shaping the economy.

According to Cezary Jozefiak, the image of the Planning Commission presented in his article "(...) condemns the Planning Commission as an organ which initiates and supervises the successive stages of the reform." It is a condemnation which fits his intentions, but not the actual facts.

Here one can hardly escape a certain reflection. At the very beginning of his article, Cezary Jozefiak states that one of the features of the still surviving centralized management is the actual domination of branch structures over functional ones. He unambiguously rejects the former, but he focuses his attacks on the Planning Commission law, which provides the responsibility of the central planning organ chiefly for the articulation of the general interests of the society. To safeguard the supremacy of those interests, the duties of the Planning Commission, as set up by the law, provide, inter alia, for the need to take into account public opinion and to make use of the results of broad consultations in the formulation of all socioeconomic plans.

And, finally, one other point. Trends toward hierarchization can actually emerge, just as trends toward anarchization and arbitrariness of the enterprises. But they are effectively opposed, and find recognition neither in the laws nor in practical guidance and management of the economy. It is important--in order to oppose those trends more effectively--not to allow bias to lead the fight against them astray.

12485

CSO: 2600/649



POLAND

## PROGRESS REPORT ON NUCLEAR PLANT CONSTRUCTION

Warsaw RZECZPOSPOLITA in Polish 2-3 Feb 85 pp 1, 2

[Article by (ls): "Construction of the Nuclear Power Plant in Zarnowiec: Excavation Begun Under the Reactor Building, Technological and Public Background Awaiting Contractor"]

[Text] Let us remember that, after many years of discussion and decisions on the subject of beginning to construct a nuclear power plant in Zarnowiec, it was started only at the beginning of 1982. This is one of the largest and most important investments to be undertaken in recent years. The large, multibillion zloty effort of the state was undertaken in consideration of both a knowledge of the optimal costs associated with the provision of electrical power for the northern regions of the country and of the limited possibilities of constructing new power plants fueled by anthracite or brown coal.

What is the state of construction of the Zarnowiec nuclear power plant 3 years after the government decisions were approved?

After conducting the complicated process of farm expropriation, a new village (Kartoszyne), some 25 kilometers from the construction site, was built for all those who wished to remain farmers.

The land allocated for the construction of the future nuclear power plant required a great deal of ground work, and so far approximately 3 million cubic meters of earth have been moved. The entire construction site has been completely developed, and from the viewpoint of the future user as well. The technological background was built from scratch at a high level.

A great deal of attention has been given to the living and working conditions of the builders. Therefore a public background has been constructed, a cafeteria, locker rooms and bathrooms, and living facilities have been established at the level of a II category hotel (radio, refrigerator, two persons to a room).

As was stated at a meeting between journalists and the director of the Energobud enterprise for the realization of power and export construction, Zbigniew Maj, adequate preparation of the technological and public background will be decisive in the course of construction itself.

Today 3,500 people are already working in the construction of the Zarnowiec power plant. In the peak period of construction no less than 12,000 experts from various fields will be working here. We must assure all of them conditions for efficient work, food, rest and recreation. There will be no improvisation either in the actual construction process or in the area of social and living matters. Along with the development right at the power plant, we are building a development in Reda for 1,200 families. These dwellings will be used during the construction as quarters for the builders, including some of the staff with families.

Energobud is performing the function of general contractor in the name of the investor. However, except for a small construction group, this enterprise alone does not have any contracting forces. Instead it is commissioning performance of the tasks to individual specialized enterprises on the basis of contracts. This is something new in our construction practice. Up to now all tasks were carried out only with the construction and mounting enterprises, for which, for example, the actual preparation of the construction site was not the most important thing.

In recent weeks construction work has already begun in direct connection with the future nuclear power plant. Excavations a dozen or so meters deep have been begun below the reactor building. Last year approximately 2.7 billion zlotys were expended for the construction of the Zarnowiec nuclear power plant. Outlays anticipated this year will reach about 5.2 billion zlotys. Expressed financially, these costs are almost doubled, but this also means that the construction is entering the decisive phase.

6806

CSO: 2600/574

POLAND

# GOVERNMENT SPENDING PRIORITIES FOR SCIENCE, TECHNOLOGY

Warsaw RZECZPOSPOLITA in Polish 30 Jan 85 p 3

[Interview with Prof Dr Wieslaw Grudzewski, adviser to the deputy chairman of the Council of Ministers, and chairman of the Planning Commission, by Andrzej Litewski]

[Text] The form of social consultations has already become a permanent feature of our economic life. Its recent manifestation was the discussion concerning the premises of the Central Economic Plan for next year. This consultation had a very clear and important impact on the creation of the part of the plan concerning science and scientific-technical progress. We are discussing these issues with Prof Dr Wieslaw Grudzewski.

[Grudzewski] The Council of Ministers already in July passed a resolution on the instruments for steering the realization of central plans, government orders and operational programs for 1985. The reason this resolution was created at such an early date was, among other things, to allow enterprises and scientific-research units to reflect ahead of time and to become aware of the main directions and proposals of systemic solutions of the plan with regard to science and technological progress.

[Litewski] The discussion in enterprises and institutions lasted several months. As a result of this consultation, the Council of Ministers passed the resolution on the Central Annual Plan in November.

[Grudzewski] We know its general assumptions. It is worth stressing, however, that it was precisely a result of the social consultations that outlays on scientific-research activity increased considerably, namely by 31 percent. The sums are not merely symbolic. The sums for science, assigned directly from the budget, will increase by 9 percent, and as far as allocations for technical-economic progress are concerned, by as much as 42.6 percent. With regard to enterprises' turnover funds, an increase of almost 17 percent is foreseen. Joint outlays on the realization of research-development works will amount next year to 131 billion zlotys, which will constitute 1.85 percent of the national income assigned for distribution. Although we are far behind the countries which assign several percent more for science, neverthe-

less, we all know the current difficult economic situation. We could simply assign only this much for these purposes. Nevertheless, these funds undoubtedly ought to enable science and technology to participate much better in a successful solution of our country's social and economic problems. This applies particularly to more visible progress in research and technical achievements, and in the setting in motion of modern products and their better application. The main activities regarding standardization, meteorology [sic] and the quality of products within the framework of operational programs and government orders will concern raw and other materials included in the guaranteed supply and obligatory mediation, the standard elements and assemblies of machines, and the products serving health protection, labor safety, natural environment and the water economy.

A better use of the outlays assigned for science will be promoted by the system of government orders for scientific-development works, the use of regulations of the amended statute on inventions, and the system of protection of particularly important inventions.

[Litewski] What are our priorities in this plan?

[Grudzewski] In accordance with numerous motions submitted in the course of the consultations, priority will be given to those actions which give hope of obtaining desirable social results and measurable economic effects, particularly in areas affected by the economic sanctions. We know that works determined by the national program of basic and applied research for the years 1981-85 will continue. These works have been verified according to the current possibilities and needs. Thus we foresee the realization of 8 government programs, 72 key programs, 74 interministerial programs and 220 ministerial ones. It ought to be added that government orders include 189 research and development tasks in the full cycle, i.e., from applied research through implementation, and 19 inventions particularly important for the national economy.

[Litewski] May I ask for a few examples of the works.

[Grudzewski] The builders of the plan concentrated on four sections which have great importance for the economy. They are connected with food, housing construction, savings of raw materials and fuels, and possibilities for increasing exports and improving imports.

Thus there are themes concerning the protection of vegetation, we are very much counting on setting production in motion and introducing the growth stimulator. This is not a trifle matter, because a biostimulator properly utilized will allow a 5-percent decrease in the use of fodder.

Out of concern for the life and health of miners, a system for the early detection of fires in mines will be worked upon. The production of several medications will be started; the main ones are amilorid, a heart drug, and doxepin, an antidepressive drug.



A programmer for controlling household appliances, particularly the automatic washing machine, will permit, according to our calculations, a 30 percent saving of electrical energy, and will increase the reliability of the appliance.

We should also stress the continually growing cooperation of Polish and Soviet scientists. During the recent visit by a group of scientists and eminent representatives of the economy from the Soviet Union, led by the chairman of the State Committee of Science and Technology, deputy chairman of the Council of Ministers, academician I. G. Marczuk, we spoke a lot about this cooperation. Joint research teams will be created, we have defined the topics of longterm projects, particularly those regarding the electronization of the economy, power engineering and nuclear technology, with particular consideration for the needs of agriculture and medicine; we shall develop biotechnology, conduct research in the field of material engineering and industrial robots. We count very much on cooperation with Soviet colleagues, it guarantees us fruitful development of Polish science.

[Litewski] Who got the most?

[Grudzewski] Who got the most? Three government programs of great significance. Thus PR 4--an optimalization of production and consumption of protein (a 60 percent increase in outlays), PR 3, the development of materials and subassemblies for the needs of electronization (50 percent increase), and PR 6, for combating tumor diseases (33 percent increase).

Outlays have also been singled out for geological-research and exploratory works, for works connected with the identification of minerals, and with the utilization of accompanying raw materials. How important this issue is can be attested by the plan's assumption to carry out 400 thousand meters of drilling and mining work. The government orders also indicate the utilization of waste raw materials (the development of technologies allowing for their proper processing).

On the list of investments to be realized next year on the basis of government orders there are several concerning scientific-technological development. Among them is the continuation of the construction of a production plant of antibiotics in the POLFA Tarchomin Pharmaceutical Works and the construction of the Oncology Center, which are of great significance for satisfying domestic needs and partially export needs.

In the investments of enterprises and budget units, the continuation of the construction of the Scientific-Production Center for Electronic Materials, and the Institute of Low Temperatures in Wroclaw, are prominent.

It is now up to scientific workers, researchers, engineers and technicians to decide how the sum of 131 billion zlotys will be spent, to what extent it will pay back in modern technologies, constructions, products and production processes, in cost decreases and quality improvement. These billions must pay off in the interest of the whole society.

POLAND

# BACKGROUND REPORT ON REFORM COMMISSION DEBATE

Warsaw ZYCIE GOSPODARCZE in Polish No 8, 24 Feb 85 pp 1, 6

[Article by Tomasz Jezioranski: "After 3 Years"]

[Text] From different sides one hears lately more or less frank regrets over the fact that the process of economic reform is losing its social character, becoming a domain of officials and managers. Even though in enterprises one can point to enough examples contradicting this theory, its symbolic confirmation is that the Economic Reform Commission [KRG] has convened extremely rarely over the last 2 years (as rarely as other social bodies, representatives of advisory enterprises) and seemingly for purposes a bit like decoration; at any rate, such is the feeling of some of its members. Meanwhile, it is known that from the beginning it has authenticated the social character of the reform. In current decisions and in institutional modifications, it is hard indeed to detect the echo of the voice of the KRG, although this voice, albeit quite rarely, is being raised by the commission.

Of course, it is possible to say to this that a divergence of evaluations and opinions causes their mutual exclusion and, this being so, someone must take upon himself the unpleasant obligation of making a decision. Overlooking the fact that similar reasoning in general impairs the sense of the socialization of the reform, the reality appears somewhat differently. As far as details are concerned, in reality the palette of views has always been and is now rich, but in matters fundamental for the shape of the reform, the convergence of views has been and is considerable. The best evidence is that the "Directions" have after all been worked out.

This phenomenon of a far-advanced concordance of views in fundamental matters and differences in details also appeared at the last meeting of the commission on 13 February of this year, which was led by Deputy Premier Zbigniew Messner in the absence of Gen Wojciech Jaruzelski, who was on an official visit to India. Three particularly essential matters could be found on the meeting's agenda. First of all, there was the plan for the "introductory theses for the report concerning the process of the realization and the results of the economic reform in 1984." Secondly, there was announced on the pages of RZECZPOSPOLITA a document of the Presidium of the Government on the matter of the shaping of the organizational structures in the economy. And finally, there was also the publication by RZECZPOSPOLITA of the establishment of the system of enterprise evaluations.

### Remarks Concerning Method...

The theses for Report '84 have been quite unanimously evaluated as a painstakingly prepared document, but defective mainly in the methodological sense, as well as being a bit too optimistic in tone. This optimism, noted Prof Jan Mujzel, comforts but at the same time includes the trap of demobilization and resting on one's laurels, feeling that we have reformed the economy and we can peacefully wait for the effects. However, it is not that way at all.

On the contrary, there is an urgent need to announce the second stage of the reform and not be content with minor touch-ups. The present system differs from the old system in a fundamental way but is still far from the shape written in the "Directions." System stability, emphasized Professor Mujzel, will be a virtue only when the original program of the reform is most speedily and totally carried out. A prosthetic system will continually require correction.

The main methodological weakness, which flitted about in many pronouncements, was formulated by Prof Cezary Jozefiak. It is based on the division of the system into individual pieces and on the separate discussion of each detailed solution or subsystem. The picture of the whole is lost in the fragmentary estimations, which is by no means advantageous.

One of the participants in the discussion recalled that in the initial period of the initiation of the reform the danger of the "self-founding" of enterprises was voiced. Three years of experience have shown that enterprises have not founded themselves but that central authorities have founded themselves. In the context of having not achieved over the first 3 years the program written in the "Directions," most remarks were submitted precisely on the topic of the structure and functioning of the central authorities, especially the division-branch ministries.

If changes do not quickly and decisively appear in this sphere, the efficient realization of the economic policy of the state over the longer period will not be possible, noted PRON National Council Deputy Chairman Prof Wincent Lewandowski, a new member of the commission.

The removal of obstacles to reforming the economy generated by central administration requires very sharp and decisive actions on the part of government management, emphasized Prof Aleksander Lukaszewicz.

The resolutions passed lately and also executive acts are departing more and more from the rules expressed in the resolution concerning state enterprises. As before, all attributes of leadership are given to the administration, pushing self-governing organs into the background, said Prof Alfred Klien. (By the way, someone else announced that in the years 1982-84 ministries published almost 4200 executive acts).

By formulating the opinion that the question of the role of the central authorities in the process of reforming the economy has swollen to such an extent that it should finally be made the subject of a special plenary session of the Reform Commission, Prof Kazimierz Doktor expressed the views of the majority of the members of the commission.

It would be hard, however, to deny the correctness of Minister Wladyslaw Baka's contention when he noted that fulfilling this postulate depends mainly on when and if Task Force I of the commission, which just happens to be chaired by Prof K. Doktor, prepares the proper materials and propositions. As for now, Task Force I is silent.

The second basic reservation, which was pointed out in the submitted plan for the document, concerned its possibilities. In the "Directions," the first 3 years of the realization of the reform were clearly separated as a stage for reforming the system of the functioning of the economy and the state, and were called a period for using temporary solutions in some areas. It was argued that this whole period, which passed with the end of 1984, should then be summed up. This would provide an opportunity to reflect on the validity of, for example, the softening of the resolution about planning, which is concerned partially with the period of obligatory material rationing.

#### ...and Contents

The question of rationing was, besides prices, the most often raised partial solution, illustrating the departure as time goes by from the system of the functioning of the economy outlined in the "Directions." Attention was drawn to a peculiar paradox, based on the fact that with the improvement of the general economic situation and with the achievement of successes as far as its balance is concerned, the rationing of supply goods has not only not been limited, but has widened.

Prof Czeslaw Skowronek said that in the sphere of supplies it is necessary to talk about the erosion of the destination system. The process of widening priorities, however, continues, encompassing in some important areas from 80 to 100 percent of the whole supply of goods. The obligatory method of intervention has been consolidated. It officially encompasses 50 percent of the entirety of the supply goods, but because they are practically all basic raw materials and materials, there follows an effect of transfer on the whole, final production.

The system of supply is being pushed along its old rails by the organization obligatory in its framework. Despite declarations, the role of branch ministries in material distribution has not weakened, but has become stronger. The fact that the units of trade belong to branch associations strengthens the monopolistic structures and the dictate of the producer.

"These are all processes inconsistent with the 'Directions,' and also not wanted, and that is why I think that the future report should take a decisive and unequivocal position on these matters," emphasized Professor Skowronek.

The faulty or rather incomplete understanding of the question of the ability to make use of the instruments of the reform should properly be counted among the more important shortcomings of the plan for the theses for the report. The document, indeed, mentions this, but only in the context of an economic-financial system. There is a lack, however, of illustration of this defect, said Professor Mujzel, by stagnation in a sphere as important as the subjective structures in the economy.



Still the pluralism of the structure both in the intersectoral arrangement and especially within the state sector remains a postulate. The subjective structure is still not flexible enough, or one could simply say it is rigid. New units do not arise either in the process of creation, or in division, or in natural fusion. The mechanism of elimination of seriously ineffective enterprises does not work. There is also no effective counteraction to the monopolization of the economy, but quite the opposite, one can clearly see gestures favoring monopolistic processes by the organs of the central authorities (this matter arose to a greater extent in the second point of order in the deliberations).

From other matters, it was postulated, among other things, that in future reports a special section be devoted to the analysis of solutions and the results of the reform in these areas that were in some way or another excluded from general solutions (among others, the coal industry, public utilities institutions, social services spheres); that dangers stemming from widening recognition and adjudication of parameters be more strongly accentuated; that thought be given to whether the domination of the goods-supply side in central planning is consistent with the "Directions"; that uncritical approval for the category of justifiable costs, etc., be verified.

Remarks about the plan for the theses were on the whole numerous. From the whole discussion concerning this point of the meeting, one fundamental conclusion emerged, which Dr W. Lewandowski tersely expressed: the reform requires reform, but in keeping with the "Directions." It will be interesting to see how this discussion and the conclusion will be structured in the final version of the report, and later in the plan for system modifications.

Minister Baka announced that in April and May the next sessions of the commission should take place. The first ones should be devoted to discussions on the plan of the report and introductory assumptions for changes in the system and the second ones to plans for these changes. Such a timetable is dictated, emphasized the plenipotentiary, by the desire to realize a possible legislative process before summer.

#### The Second Trend

The second point of the discussion concerned, formally speaking, the document of the Council of Ministers Presidium concerning directions for the improvement of organizational structures in the economy. However, the matter of the structures themselves became the main topic. It so happened by coincidence that an article published in ZYCIE GOSPODARCZE No 6, devoted to the presentation of the newest conception of the reconstruction of the organizational structure in the metallurgical industry by means of the liquidation of 101 independent enterprises and the creation of 7 plants, was an additional pretext for an exchange of opinions on this matter.

Aleksander Kopec was the only one who stood forth calling for consolidation. Such is world experience, as he himself had checked personally, he emphasized. When the opportunity occurred, Dr A. Kopec delivered a wider programmatic

expose, negatively evaluating the results of the reform. He illustrated this with, among other things, evidence that innovations constitute only 1 percent of the value of production.

Dr Kopec also stated that it is not necessary to proclaim further stages for improving the reform because "it was created by individual persons." Well, this reproach sounds a little strange coming from a person who was a member of the commission from the beginning--not to mention the fact that this group of "individual persons" were also the delegates to the Ninth Congress and delegates to the Sejm and are all co-authors of the "Directions."

Prof Aleksander Lukaszewicz added his position to the conceptions promoted by, among others, the minister of metallurgy and the machine industry in the statement that "'the giant smokestack syndrome' is a curio which deserves to be locked away in a room of sinister oddities." He noted in this context that putting an end to multiplying consolidation-centralization tendencies does not require any complicated measures or steps. They can be definitely stopped on the basis of existing legislation with proper decisions by government management.

Since Dr A. Kopec did not illustrate his attitudes toward worldwide phenomena with examples, this was done for him by Dr Andrzej Sopocko. An analysis of changes in subjective industries of the most developed countries proves that a tendency toward decentralization appears there. In some of the countries, over at least the last 15 years the average size of production plants has not increased, and in some, among others Great Britain and the United States, it has gotten smaller.

Decentralization processes are caused mainly by the fact, first of all, that with the ever more advanced individualization of bids, profits of a greater scale disappear, and second, electronics, which delineates today the level of modernness, is based on small firms.

Jumping ahead to the possible question of why in that case many demons, known in world literature as unsinkable cruisers, live and do not die, Dr Sopocko answered that it is because such demons have besides the quality of low effectiveness also a second quality: in general they do not go bankrupt. This is so because of an unusually complicated network of capital and political connections. One can prove with concrete examples that the spectacular consolidation processes of the last 10 years or so were primarily forced by the specter of bankruptcy of smaller units.

From this point of view, emphasized Dr Sopocko, the basic reservations that one should have toward the government document consist of the fact that despite the appearances of neutrality and openness one can discern in it a clear preference for consolidated systems.

Dr Sopocko was not alone in his impressions; Prof Czeslaw Bobrowski's were similar. The professor also emphasized that the degree of consolidation in the Polish economy, including industry, is very extensive; and what is worse, vertical systems dominate, serving exclusively to average costs and obscure the calculation of profits and losses.

"Consolidation tendencies are being sustained, and I know of examples where they were forced by promises of profits, which is plain bribery," said the professor.

The predominance of great and heavy structures over small ones stultifies the economy, deprives it of necessary flexibility for action and reaction. Referring to the document that was a formal subject of the discussion, the head of the KRG stated:

"I fear all documents of this type which in the name of good aims threaten senseless and harmful actions. Let's not put a sword in the hands of a madman."

If the government sees a need for working out this type of document, it ought to express support in it for the idea of differentiating organizational structures. The practical expression of this ought to be the supplementation of the document with sections concerning, among other things, a mechanism for the birth of new enterprises together with a clear statement that until a decisive reform of branch ministries is carried out, the initiative for the processes of changes in organizational structures ought to belong to enterprises.

Professor Bobrowski also noted that ascribing in the document particular types of structures to particular economic arrangements was an exceptionally unfortunate endeavor. Referring in the summation of the discussion to this remark, Minister Baka said that in the intentions of the authors this was only an exemplary illustration, and in no way was it a directive. However, taking into consideration that this type of document lives its own life, it will be necessary to make an effort to put an end to this wrong impression.

The plan for the establishment of a system for evaluating enterprises met with a decidedly bad reception (for a discussion of the document and its evaluation from the side of the representatives of advisory enterprises for the reform, see ZYCIE GOSPODARCZE No 7). The basic objection formulated by, among others, professors C. Jozefiak, C. Bobrowski, and Dr Leopold Gluck concerned the multi-criteria and multiple evaluation subjects.

This can bring only one result: the staff managing an enterprise, instead of seeking ways of improving efficiency, will seek schemes and props. Such a system of evaluation is a further great step in accepting the status quo. If it is taken, there will be only a small step left to voluntarism. The remark placed in the document that the proposed system of evaluation will favor and strengthen the independence of enterprises seems to be ironic, noted Professor Jozefiak.

Professor Bobrowski noted that if the document discussed is treated seriously by the central authorities, "it will cause hell in enterprises, which will last until the very necessary separation follows of strategic functions from founding-control functions, which today are in the hands of these same organs. Control is necessary but it makes sense only when it is judiciously applied. If it is done too often, it changes into bureaucracy and causes animosity between the controllers and the controlled."

I am under the impression, however, that the healthiest attitude toward the system was presented by Dr L. Gluck. He recalled that in 1957 the bank received an obligation for making such evaluations based not on 29 but on only a few criteria. And after 2 years the matter had to be given up because it was impossible to carry out. Also in later years a similar attempt took place and resulted only in stuffing the cabinets of the associations and ministries with huge quantities of paper which no one was able to digest.

If this time we want to avoid a similar development of events, it will be necessary to say clearly that the proposed system of evaluation will not be any officially government-passed and obligatory document, but only something in the nature of a set of directions for the controlling subjects. It is clearly written in the "Directions" that "the performance of the supervision over enterprises by sectional ministries should consist of checking the legality of actions and the correction of revealed improprieties." Only. And indeed in the bill concerning the state enterprise, this formula was already diluted, emphasized Dr Gluck; let us not depart farther from the spirit of the "Directions."

Moreover, Dr Gluck recalled that it is written in the "Directions" that branch ministries are supposed to examine and analyze the efficiency of macrosystems (sectors, branches, and subbranches), which is of course more difficult than putting a concrete, individual enterprise under a magnifying glass.

"Let's not, however, in our eagerness for an exact diagnosis of the tree lose the ability to see the whole forest," he concluded.

Taking a stand on this part of the discussion, Minister Baka stated that the system of evaluation was not intended to take the form of an official document, as for example a government resolution. It was conceived according to suggestions as a guide, and its fundamental function is to consist of "having the control organs work on the same wavelength." The present trouble is not only an inundation of control but also a great lack of cohesion of criteria.

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CSO: 2600/650



POLAND

BRIEFS

SOVIET HEAVY MACHINERY DELEGATION--A delegation of the USSR Ministry of Heavy and Transport Machinery Construction has been in Poland. The purpose of the visit was to exchange experiences in the area of planning and managing the economy. The Soviet guests held talks in the Ministry of Metallurgy and the Machine Industry. They also visited the Zabrze Metallurgical Plant and Zastal in Zielona Gora. At the end of their stay they met with with the first deputy chairman of the Council of Ministers Planning Commission, F. Kubiczki. Among other things, the Soviet delegation provided information about the procedure of introducing an economic experiment into the USSR. A representative of the USSR State Planning Committee at the Soviet Embassy, adviser G. Zossimov, took part in the talks. [Text] [Warsaw RZECZPOSPOLITA in Polish 2-3 Feb 85 p 2] 6806

CSO: 2600/574

YUGOSLAVIA

REPUBLIC, PROVINCIAL FOREIGN DEBT BREAKDOWN

Editor's Introduction

Belgrade BORBA in Serbo-Croatian 19 Feb 85 p 5

[Text] The debt which has to be repaid to foreign creditors has become a daily nightmare for us. All our efforts to normalize the functioning of the economy have to be twice as great for precisely that reason. After all, the large debt entails a large amount of interest, and then there are also the immense amounts resulting from changes in rates of exchange.

It is difficult to say what part of the debt pie was contracted by whom, since many are returning foreign exchange which they have not used, but have sold on the foreign exchange market. Nevertheless, certain computations do exist, and there are also efforts to repay the debt on time. We will attempt in a series of articles by our staff writers to learn how much each republic or province owes and what sort of efforts it is making to reduce the amount of that debt as much as possible.

Serbia Province

Belgrade BORBA in Serbo-Croatian 19 Feb 85 p 5

[Article by D. Sverko]

[Text] Serbia today has a foreign debt of about \$3.71 billion: \$3.41 billion of that debt is medium-term and long-term, and about \$308 million is short-term (the figures are for 31 December 1984). Most of the debt is with the convertible area.

Who is going to repay that debt and how--that is a question which no one is able to answer reliably at this moment. This immense burden, whose amount was until recently cloaked in a veil of secrecy--even in a session of the Serbian Assembly held less than 3 weeks ago these figures were marked "confidential"--has been the stumbling block for all plans to increase production and exports.

Although last year and the year before last all obligations come due to foreign countries were met on time, Serbia's debt has not been decreasing. This year it is about \$166 million larger than at the beginning of last year. It

would, to be sure, have remained at the same level, we were told by Miroslav Pajic, counselor in the Republic Committee for Foreign Relations, if it did not include the credits which Yugoslavia was given by the International Bank for Reconstruction and Development and which are all going through the books of Serbia (as a matter of fact, Serbia is the principal user of those credits). The fact that the republic is extending about \$264 million worth of commodity credits abroad also contributes to the increase.

#### The Largest Short-Term Indebtedness

In both absolute and relative terms Serbia has the largest short-term indebtedness in the country--34.7 percent, or 45.3 percent if we also include the debt of "Jugobanka," which last year contributed considerably to guaranteeing the country's liquidity by extending credit. Otherwise Serbia is slightly below the country's average in the level of its indebtedness.

"When we compare certain other indicators on foreign debt we are not so bad off," says Bozo Jovanovic, deputy chairman of the Republic Committee for Foreign Relations.

Yet other figures indicate that the situation is not changing for the better. In 1983 about \$489 million, which is 21 percent of the total inflow of foreign exchange, went only to make payments against medium-term and long-term credits (the short-term credits balance out). In 1984 this amount climbed to \$698 million (\$365 million against principal and \$333 million in interest), which is 28 percent of the inflow of foreign exchange. It is estimated that all of 30 percent of that foreign exchange, which is so valuable, will go for payments this year, and the burden would have been still heavier if the debts had not been constantly deferred. In spite of the stagnation in the inflow of new foreign exchange, it is estimated that by the year 1990, according to the program for external liquidity from 1985 to 1990 sketched out by the Federal Executive Council, Serbia will reach a level where 25 percent of its inflow of foreign exchange will go to pay off debts, which is considered normal indebtedness by international standards. This certainly would also take into account the measures of the Federal Executive Council related to Serbia's lag, which has just received official confirmation. The reference is to a debt of about \$250 million which is to be repaid by banks and work organizations in the other republics and provinces and the short-term credits already mentioned.

#### Changing the Economic Structure

The main problem, however, lies in the present economic structure, which is not directly oriented toward exports to a sufficient degree, and Serbia's high dependence upon imports. This has in fact caused the considerably slower recovery of exports than that of Yugoslavia as a whole. Thus over the last 4 years about 50 of the largest exporters have fallen considerably behind in exporting their goods. Altering the structure of the economy requires altering the pattern of investment; investments have been the source of trouble and still represent a virtual bottomless well. Even assuming no new project starts, but only completion of those in progress (on which the overruns are immense), it will take between 2.5 and 3 years (a figure obtained from a

recent session of the Serbian Assembly). Most of these investments will not produce results in exporting, although they do have to do with import substitution. The debts incurred by investing in these projects are paid off slowly and with great difficulty, and that with the foreign exchange of exporters, who usually do not have a causal connection to those sectors.

"The problem is that we have not yet begun to use foreign credits for purposes which are reproductive in terms of foreign exchange," Jovanovic says. "One example might be highway construction, and then the investments in agriculture. The question, that is, is what good it will do to undertake exports when we do not have enough to feed the population?"

All of this is imposing a need for faster orientation toward investments that lead to exports, in plants that represent up-to-date technology which will pay off as soon as possible in terms of foreign exchange.

In Serbia this year they plan to increase exports by 10.4 percent and exports to the convertible area by all of 17 percent. According to many people the overambitious plan is a condition if the growth of production is to be maintained and foreign debts paid off on schedule. But the debts are growing larger and larger. The eight largest debtors in the republic account for half of the debt, and among them the inglorious lead is taken by the Smederevo Metallurgical Combine, which is far out ahead of the others and is followed by nonferrous metallurgy with the Bor Mine and Smelter, and then the fuel and power industry, with the Consolidated Electric Power Industry of Serbia. Then comes transportation, including the entire highway system. Other recordholders in the field of indebtedness are "Crvena Zastava" Plants of Kragujevac and "Zorka" of Sabac.

Two new programs represent large exporting opportunities--a ticket to the world market. The first has to do with an arrangement of the "Crvena Zastava" Plants whereby it would export 20,000 automobiles to the American market, and the other calls for construction of the "Kuban" Agroindustrial Combine in the Soviet Union following the model of the "Beograd" Agroindustrial Combine.

#### Vojvodina Province

Belgrade BORBA in Serbo-Croatian 20 Feb 85 p 6

[Article by B. Gulan]

[Text] We talked about the debts of SAP [Socialist Autonomous Province] Vojvodina and how they would be repaid with Mila Ercegovac, deputy governor of the National Bank of Vojvodina, Aleksandar Sijacic, vice governor, and Dusan Boskovic, director of the Sector for Information and Analysis in the National Bank of Vojvodina.

"Vojvodina's total debt, speaking of principal, is \$960 million," the people we talked to said. "Most of that debt is to the convertible market, all of \$851.1 million, and there are \$39 million of short-term credits."



### Somewhat Smaller Obligations

"As for interest, the status of that debt is \$304.4 million," Dusan Boskovic said. "Most has to do with debts to the convertible market, and that \$280.5 million. Interest on short-term credit amounts to \$4.2 million of that amount. If we also add to this the foreign exchange debt to banks in the country to pay off fixed and guaranteed obligations after the foreign exchange market ceased to function, which amount to \$217 million, we arrive at Vojvodina's total debt on the basis of all its obligations."

"At the moment Vojvodina owes a total of \$1,481.9 million," Mila Ercegovac pointed out. "The largest obligations, all of \$1,348 million, are toward the convertible market, while our debt to the bilateral payments area amounts to \$132.2 million."

When the discussion turned to the total foreign exchange debt of SAP Vojvodina at the end of last year, the observation was made that it has not increased, but in fact has diminished a little.

"In just 11 months of last year, the period for which we have figures, \$114.6 million were paid against principal (most of it, all of \$99 million, in convertible currency), along with another \$70.3 million in interest, which makes a total of \$185.9 million. The plan called for a total of \$38 million to have been paid in December last year as well. So, all of our analyses to date show that at the end of last year the principal of our foreign debt decreased by \$18.2 million, while the foreign exchange debt to banks in the country increased by \$4 million," Sijacic said, and added: All of this indicates that last year we reduced our total foreign exchange obligations by \$14 million. This year will not be any easier than last. After all, the foreign exchange obligations are still larger. The figures indicate that this province must repay just to the convertible area a total of \$308 million, \$258 million of regular credits and only \$50 million are to be repaid to banks in the country. The people in Vojvodina have planned for this year an inflow of foreign exchange of \$770 million from all sources. So, the dollar difference will not be enough for the regular business operation of the economy, to purchase raw materials and production supplies, so that some of the foreign exchange will have to be sought from several other sources. As a matter of fact, 44 percent of the total inflow of foreign exchange must be spent immediately to meet foreign exchange obligations.

As for repaying debts up to 1990, the situation is approximately what it was last year and what it is this year. It is anticipated that only after 1990 will the Vojvodina economy have it a bit easier.

### Large Ambitions

If we look at all the things Vojvodina borrowed money for, it would be clear even to a layman that its debts have largely to do with large ambitions in building factories and industrial plants. This has been interwoven with a desire for the most rapid possible development, even though often it has been less than the real potential. Thus today the largest debtor is the "Pancevo"

Chemical Industry, whose debt is \$126.2 million, followed by the "Naftagas" SOUR [Complex Organization of Associated Labor] with \$110.5 million, the Ki-  
kinda Iron Foundry and Heat Treatment Facility with \$57.2 million, and they  
are immediately followed by "Zorka" of Subotica, "Matroz" of Sremska Mitrovica,  
and others.

We attempted to talk about the policy concerning repayment of the debts and  
the way in which these large obligations would be discharged with Svetozar  
Rakic, chairman of the Provincial Committee for Economic Relations, from whom  
we obtained only a scant reply:

"We are just at the point of preparing a report on how we will be repaying the  
debts this year, and it will come before the delegates of the provincial as-  
sembly at one of the coming sessions. It would neither be good, nor brave, to  
talk now about that matter, when everything has not yet been cleared up in the  
details," Rakic said.

#### Bosnia-Hercegovina Province

Belgrade BORBA in Serbo-Croatian 21 Feb 85 p 5

[Article by F. Nikocevic]

[Text] According to the first figures and estimates, Bosnia-Hercegovina's  
foreign exchange debt last year amounted to \$1,826 million in the convertible  
area and \$411 million in the bilateral payments area, which compared to 1983  
is a reduction of the debt (quite modest to be sure, amounting to \$4 million).  
At a time when Yugoslavia's foreign exchange debt abroad, and thereby that of  
Bosnia-Hercegovina as well, has grown year after year, and that rapidly, this  
symbolic decrease of the debt is instilling optimism and belief that we are  
entering a period of gradual reduction of indebtedness in the world. At the  
same time a drop of \$11 million in indebtedness in the bilateral payments area  
was also recorded.

"The republic, that is, associated labor of Bosnia-Hercegovina, is having dif-  
ficulties repaying its debt abroad," we were told in a conversation with Emin  
Dukatar, chairman of the Self-Managing Community of Interest of Bosnia-Herce-  
govina for Foreign Economic Relations, and without more solidarity and aid  
within the country, which is an obligation set down in law, it will not be  
able to meet the obligations as they come due. This republic has a higher-  
than-average foreign debt because of credits used for intensive economic de-  
velopment, which has been characterized by large investments in the infra-  
structure. Almost half of the foreign debt is related to development of the  
fuel and power industry, coal and iron mines, and construction of transporta-  
tion routes and railroad lines. These are all projects of common interest to  
development of the entire country."

Bosnia-Hercegovina's entire foreign debt denominated in foreign exchange is  
based on long-term and medium-term credits, and there has been no short-term  
borrowing. Last year this republic's obligations arising out of foreign cred-  
its, as we were informed in the Self-Managing Community of Interest of Bosnia-

Hercegovina for Foreign Economic Relations, amounted to \$407 million (\$341 million with the convertible area and \$66 million with the bilateral payments area) were in fact met on time. This year, it is estimated, the foreign exchange obligations will amount to \$409 million (\$316 million in convertible and \$93 million in bilateral payments dollars). These obligations do not include the credits being refinanced (last year \$205 million and \$140 million this year). In 1983 foreign exchange debts were refinanced in the amount of \$152 million. In all, \$497 million of debt has been refinanced in the last 3 years.

In the opinion of Emin Dukatar the rescheduling helped to ease the repayment of debt with fewer consequences for current reproduction, which has contributed to the invigoration and growth of industrial production, especially that production intended for export. So, rescheduling is a necessity at present.

#### Estimated Debt

<u>Year</u>	<u>Debt to Convertible Area</u>	<u>Debt to Bilateral Payments Area</u>	<u>Obligations to Convertible Area</u>	<u>Obligations to Bilateral Payments Area</u>
1985	1,860	380	316	93
1986	1,798	361	505	69
1987	1,738	345	520	66
1988	1,680	340	550	63
1989	1,564	335	560	59
1990	1,513	320	580	55

In 1984 the foreign exchange debt was \$16 million smaller than in 1983 (a drop of \$4 million in the debt to the convertible area and \$12 million in the debt to the bilateral payments area). Incidentally, the foreign exchange debt this year, it is estimated, will amount to about \$1.86 billion to the convertible area and \$380 million to the bilateral payments area, which will represent an increase in the total foreign exchange debt by another \$34 million. The debt to the bilateral payments area was \$423 million in 1983, \$411 million last year, and this year it will reach an amount of \$380 million. In practical terms this means that indebtedness on the convertible market has grown by \$34 million, while that in the bilateral payments area will drop \$31 million.

Judging by all the figures, Dukatar said, it is obvious that the foreign debt is gradually being reduced and obligations in foreign exchange are being discharged as they come due. This republic, to speak in practical terms, has so far not been delinquent by a single day in paying foreign obligations as they come due.

Bosnia-Hercegovina's external debt, it is envisaged in the present projection, is to be reduced from \$1.86 billion in 1985 to \$1,513 million in 1990, while obligations under credits would over that same period increase from \$316 million to \$580 million. These figures pertain to the convertible payments area.

The inflow of foreign exchange in convertible currencies on the basis of exports of goods and services, according to figures in the foreign exchange balance of the National Bank of Bosnia-Herzegovina, amounted to \$630 million in 1983, \$656 million last year, and the plan for this year calls for an inflow of \$720 million. Integrated systems in Bosnia-Herzegovina such as "Energoinvest," "UNIS" and "Sipad," whose exports to the convertible and bilateral payments market, and also on the basis of various compensation transactions, will amount to about \$1.4 billion, have announced ambitious exporting plans for this year. There is also considerable potential for exporting which has gone untapped, Dukatar said, in agriculture and the food processing industry.

Perhaps this republic has still greater opportunities to increase its own net inflow of foreign exchange in continuing the good beginning that has been made in winter tourism based on sport and recreation and the hotel and restaurant industry, which was given a thrust by the Winter Olympics in Sarajevo.

#### Macedonia Province

Belgrade BORBA in Serbo-Croatian 22 Feb 85 p 5

[Article by N. Batkoski]

[Text] When it comes to the foreign debt, SR [Socialist Republic] Macedonia has been above the limit of international criteria for several years now. As stressed by the people we talked to--Dr Agis Sajnoski, Blagica Andreevska and Mirjana Petrovska of the Macedonian Republic Committee for Foreign Economic Relations, at the end of 1983 the total debt to foreign trading partners amounted to about \$1.53 billion [original reads "dinars"]. Of this, \$205 million are debts in the bilateral payments area. Long-term and medium-term credits represent 96.9 percent of the total debt, and short-term credits 3.1 percent. Of the \$1.32 billion of total debt to trading partners in the convertible area \$371 million represent interest.

#### Narrowed Possibilities

The best illustration of how much money this is is the figure that obligation to make payments in this period, as Dragoljub Samuev, chairman of the Republic Executive Council, said in one of the recent sessions of the Macedonian Assembly, amount to about 10 percent of the volume of the social product of the economy and about 70 percent of the country's total obligations. It is assumed that the problem of meeting obligations to foreign countries as they come due will arise in still more aggravated form in the next 3 to 4 years, when the payments will be highest. This will narrow still more opportunities for using additional foreign capital in the period up to 1990, since almost half of depreciation will go to repay foreign credits. That is, the economy is unable to carry on even simple reproduction on its own.

The figures on the size of the total debt last year have not yet been put in order, and accordingly we cannot speak about whether the level of the republic's debt has been dropping or rising. According to the long-term projection on the republic's development up to the year 2000, plans call for the debt to



gradually reduce so that the debt comes down from \$1.2 billion to the convertible area to about \$900 million. The share of total new foreign credits in the social product would drop to reach 6.8 percent in the year 2000, as against 8.5 percent the year before last. Last year Macedonia was supposed to pay back \$262 million, and about \$140 million were paid. The rest of the debt was deferred with rescheduling and other financial transactions, which is why there are certain indications that the level of the debt will increase in the next 3 to 4 years.

This year Macedonia has payments of about \$242 million in the convertible area. About \$161 million are against principal, and \$81 million is the amount of interest. According to what we were told by those we interviewed, sales of goods and services in the convertible area this year should bring a total inflow of foreign exchange of about \$282 million according to the plan. The share of the obligations for this year in the total inflow of foreign exchange from sales of goods and services in the convertible area is 86 percent, which is indication of the immense indebtedness of the Macedonian economy and of the banks.

#### Expensive Credits

All of this is exerting enormous pressure on the Macedonian economy, and the problem of differences in rates of exchange is especially serious. The dinar's fall against the dollar means that paying back these credits is taking away several tenths more out of income than was the case when the credit was taken, which worsens still more the situation in work organizations and other organizations. Especially since the projects once built will not be oriented toward exports, but are above all in heavy industry, so that it is not possible to realize an adequate inflow of foreign exchange to pay off the expensive credits which are becoming more and more expensive.

For that reason, we were told, high mobility must be counted on to make up for the difficult economic conditions. The reference here is above all to the limited opportunities to import necessary raw materials and production supplies resulting from the fact that the inflow of foreign exchange achieved by the Macedonian economy is very small, and the assessments from that inflow to meet government and social service needs at the national level are high. In spite of the demand that these difficulties be overcome with their own resources, through better organization of work, by augmenting exports, by improving product quality and through saving, financial support of foreign trading partners is also counted on. The resources which will be set aside by the broader social community in the National Bank of Yugoslavia and earmarked for the republics and provinces which have above-average indebtedness are also very important.

According to the available figures, the organization deepest in debt is the "Feni" Combine for Ferronickel Production in Kavadarci, for which a total of \$350 million has to be paid, about \$70 million this year alone, which will be accomplished in part by collecting funds from organizations of associated labor and individuals through additional income taxes. Another of the large debtors is the Stopanska Banka--Associated Bank for credits intended for

agriculture, which owes \$311 million and is to pay back \$34 million this year. Then the railroad transportation organization, with a total debt of \$64 million and obligations of \$9 million this year, the electric power industry with a debt of \$49 million and obligations of \$13 million this year, and the "Bucim" Mine in Radovis, with a debt of \$40 million and obligations of \$10 million come due.

[Box]

#### Interest

Over the last 10 years SR Macedonia has imported about \$360 million, and their value on the currency rate boards at that time was about 9.3 billion dinars. During the period of repayment of these credits up to the year 1993 about \$250 billion dinars will have to be paid, \$200 billion of which results from differences in rates of exchange. A calculation shows that the annual rate of interest is 348 percent.

#### Projection

According to a projection of the outstanding debt of the Macedonian economy and banks over the next several years, this republic will have to pay \$223 million in 1986, \$168 million in 1987 and \$429 million after 1987.

#### Kosovo Province

Belgrade BORBA in Serbo-Croatian 25 Feb 85 p 5

[Article by M. Daci]

[Text] Over the period from 1976 to 1980 Kosovo used foreign credits in the amount of \$795 million for its needs in development, most of which (60 percent) went to purchase and build infrastructural facilities. In the current medium-term period this province has also had to borrow abroad, although appreciably less than in the previous period. The total foreign debt at the end of 1984 was \$866 million, which represents a large burden for the Kosovo economy, one which it has not been able to support on its own.

Most of the credits used, we were told by Muharem Ismaili, governor of the National Bank of Kosovo, went to build facilities in heavy industry and the fuel and energy complex.

#### Obligations

Last year payments of \$94 million were made against foreign credits. Kosovo also had an obligation to pay a claim to authorized banks and the National Bank of Yugoslavia in the amount of \$91 million.

The situation will be similar again this year. Total foreign exchange obligations will amount to \$190 million (\$126 million against principal and \$64 in interest). Just as last year, Kosovo has taken new foreign credits in the

amount of \$112.6 million (including those involved in the refinancing), so that the level of the province's total debt at the end of 1985 had dropped by \$28 million.

Kosovo's inflow of foreign exchange last year from exports of goods and services, together with the inflow from remittances of workers employed abroad temporarily, amounted to \$181 million (first 11 months). This year, if the projections are borne out, the inflow of foreign exchange should be between 10 and 15 percent greater, which means that it will total about \$200 million [original reads "dinars"].

"Yet so that we do not delude others or ourselves, we should mention that the rate of Kosovo's indebtedness is actually much greater if we evaluate it solely on the basis of the inflow of convertible foreign exchange. In 1985, say, as predicted, it will amount to \$115 million (from imports of goods and services and net remittances), while the obligations coming due will amount to \$190 million. To make the situation still clearer, we should add to this the payment resulting from imports of goods and services (\$127 million), which makes the problem of external liquidity still more acute, Ismaili feels.

Nor will the situation be better in the next medium-term period (1986-1990). That is, in that period Kosovo's associated labor will each year have to repay the world \$165 million on the average (a total of \$820 million). This sum does not include the total amount of the refinanced portion in 1984, nor the part that will be refinanced this year--about \$50 million. According to predictions, up to 1990 Kosovo will have to take new foreign credits in the amount of \$247 million, but it is believed that at the end of 1990 the total debt will be about \$300 million smaller than in 1984.

Priority in the development policy of the Kosovo economy has been given in the last two medium-term planning periods to construction and completion of key projects in heavy industry, which basically means import substitution (energy, raw materials and food) for the province and for the country as a whole.

#### Priorities

"In 1985 the foreign credits were mostly taken by organizations of associated labor in heavy industry and the fuel and power complex. More precisely, 69 percent of this year's total payment pertains to 'Trepca,' the Kosovo electric power industry and 'Feroniki' in Glogovac. The Kosovo electric power industry will have to pay back \$77 million this year, 'Trepca' \$33 million and 'Feroniki,' which recently started up, \$21 million.

"Incidentally, 77 percent of the total foreign debt pertains to credits used for investment in the complex consisting of heavy industry and the fuel and power industry, that is, precisely that part of the economy which has the lowest ability to settle those obligations on its own through its own dinar accumulation and inflow of foreign exchange," Ismaili said.

The solidarity and assistance of the Federation is counted on in settling the foreign debt, as has been the case up to now. It is emphasized that most of

the credit which the province has used went for those investments which have priority importance not only for this province, but for the entire country as well. This is the case, for instance, with electric power, which is sold for dinars to the other republics and Vojvodina, and certain products of metallurgical origin are exported to the bilateral payments area under intergovernmental arrangements whose counterdeliveries (raw materials and production supplies) go least of all to the province.

Business people in Kosovo say that additional capital from abroad will continue to be indispensable and will be committed predominantly to manufacturing facilities, most of them oriented toward export, those that have the highest rate of accumulation, so as to gradually alter its markedly unfavorable economic structure. This would at the same time create the conditions for larger exports, in time associated labor would take over an ever greater portion of the external obligations, and Kosovo's economic and social development would also tend to be speeded up.

#### Montenegro Province

Belgrade BORBA in Serbo-Croatian 26 Feb 85 p 4

[Article by S. Vukasinovic]

[Text] In the situation at the present moment it does not seem to be an exceptionally high figure when you mention that one republic has a foreign debt of \$850 million. But for Montenegro that amount is a considerable burden. This is eloquently indicated by the datum that that republic's debt is 2.7-fold greater than the Yugoslav average, which represents one of the largest problems in its future development. Just remember: long-term credits represent \$844.2 million, and short-term almost \$4 million.

"If we add to this that the outstanding foreign debt is related both to the problem of differences in rates of exchange and also the scant real capabilities of associated labor to pay off debts of that size, along with the fact that last year Montenegro had to allocate more than 43 percent of its social product to pay off foreign and domestic debts and approximately the same amount for payments on both bases, then the situation in the republic is clear," we were told by Milivoje Lausevic, member of the Montenegrin Executive Council and director of the Republic Bureau for Social Planning. The gravity of the situation is also indicated by the fact that differences in rates of exchange are alone absorbing about one-fourth of the planned social product. Taking an objective view, because of the extremely large obligations arising out of foreign credits and its own situation, Montenegro last year had to take credits to refinance a part of the payments, and it is anticipated that it will have to do the same again this year.

In the first 9 months of last year it paid off \$152.7 million of the \$244.8 million of its planned obligations (principal and interest). The planned obligations on the basis of credits taken up to September of last year amount to \$235.3 million for this year, Lausevic said, \$142.1 million of that against principal and \$93.2 million in interest. New credits of \$133 million will



also have to be taken this year, about \$80 million will be set aside for re-financing, and the rest will be committed to imports of equipment and production supplies. When all this is taken together, it is realistic to anticipate that this year the debt will decrease by about \$10 million.

We should recall once again that the share of the obligations based on Montenegro's foreign credits amounts to more than 71 percent of the total inflow of foreign exchange from January to November of last year, and all of 20 percent more than that when compared to inflow from the convertible area.

The plans in Montenegro for exports of goods and services are rather ambitious in order to get out of that situation. Should the plan be realized, this would cover between 70 and 80 percent of total obligations this year.

All of this means, Lausevic said, that the Montenegrin economy, in spite of its unfavorable structure and the high share of raw materials in its exports, is already achieving a relatively high percentage of exports to imports. On the basis of the outstanding debt and the conditions under which those credits were used, even by 1986 Montenegro expects to gradually reduce its obligations arising out of foreign credits, although according to the plans they will continue to be high up until the end of this decade. This especially applies to several large work organizations which also are the largest debtors. For instance, the debt of the Aluminum Combine represents 17.5 percent of the republic's total debt, that of the "Boris Kidric" Steel Mill 14.5 percent, the Port of Bar 6.9 percent, and they are joined with somewhat lower figures by the Titograd Railroad Transportation Organization, the "13th of July" Agricultural Combine, and others.

#### Slovenia Province

Belgrade BORBA in Serbo-Croatian 27 Feb 85 p 5

[Article by A. Dvorshak]

[Text] We were unable to obtain from the competent republic authorities in Slovenia an official figure on this republic's actual foreign debt, though it is known unofficially that according to figures up through June of last year this debt amounted to \$1.48 billion. It is also known unofficially that most of that debt concerns the fuel and power industry (above all), the "Krsko" Nuclear Power Plant, and other parts of the infrastructure.

Aside from that, Vojka Ravbar, assistant chairman of the Republic Committee for International Cooperation, told us that they have precise figures on the foreign debt, but they dare not release them, since the National Bank has marked them "confidential." At the same time she said that it would be best if all the figures on the foreign debt were released by one center, that is, by the National Bank of Yugoslavia, which also has the best insight into this entire problem area. In that way it would be possible to obtain the most accurate figures in accordance with a uniform methodology, and that would also afford a more realistic comparison from one republic or province to another. At present, since many release figures based on differing criteria, confusion

results, and a mistaken idea is obtained about the indebtedness of the various parts of the country and the quality of that indebtedness. We otherwise learn that Slovenia has the lowest level of indebtedness within the framework of the SFRY.

An analysis is right now being prepared on the indebtedness of Slovenian organizations of associated labor if their individual debt exceeds \$1 million. The analysis will show what the various organizations of associated labor borrowed money for, what body made the decision, why those resources were used and what results were achieved or are anticipated, how those debts are being repaid, and so on.

In any case, all the organizations of associated labor in Slovenia are repaying their debts promptly either from their own inflow of foreign exchange or from the inflow that has been pooled.

The Assembly of the Republic Self-Managing Community of Interest for Foreign Relations decided in a session on 14 February that 1 percent of the actual inflow of foreign exchange in SR Slovenia would be set aside (within those 10 percent which the republic may pool to cover government and social service expenditures) to pay fixed and guaranteed obligations for infrastructural projects agreed on. Aside from that, organizations of associated labor are pooling 6 percent of their inflow of convertible foreign exchange within the banking system to pay off fixed and guaranteed obligations for the infrastructural projects.

This year's installment to repay foreign debts amounts to about \$235 million, but if a portion of the debt is rescheduled, then about \$220 million will have to be paid.

#### Why We Went Into Debt

Belgrade BORBA in Serbo-Croatian 28 Feb 85 p 2

[Article by D. Vucinic]

[Text] BORBA's survey has just been completed on the foreign debt of the republics and provinces, on how they have repaid foreign credits up to now, and on upcoming obligations for this year and coming years. Our staff writers went to get the information (which by and large they did) "on the spot."

It thus turns out that Montenegro's debt amounts to \$856 million, Macedonia's about \$1.53 billion, Vojvodina's \$1.48 billion, that of Serbia proper \$3.71 billion, Kosovo's \$866 million and that of Bosnia-Herzegovina \$1.86 billion.

Slovenia's debt, according to figures which are not 100-percent official (those data were not accessible to our reporter "because"--we were told--"the National Bank had marked them confidential") amounts to about \$1.48 billion. But Croatia's debt, again according to figures which "because of certain technical problems in the computer center of the National Bank" could not be officially confirmed, amounts to slightly over \$3 billion.

To this total amount of about \$14.74 billion we should add the assumed \$4 billion or \$5 billion which are probably carried as the debt of the Federation, so that in that way we get on paper the well-known figure of the country's total foreign debt. The principal, of course.

#### Their Own Secrets and Their Own Criteria

Nevertheless, even after this survey we would not dare to swear that these figures are accurate. That is, it is difficult to compute the actual debt of any of the eight or nine Yugoslav debtors, at least for the public at large. Not only because in the case of debts and overindebtedness the essential thing is not the size of the debt, but the relative relationship between the payment come due and the inflow of foreign exchange, and then the size of the inflow of foreign exchange relative to the size and pattern of goods exported, and so on. Not only because the figures had to be sought after from eight republic and provincial "sources of information" nor because each of them has had and now has its own standards, its own way of looking at things and its own criteria.

No, but simply because many of these figures are not revealed for the public at large or at least very reluctantly given out, especially in any very concrete form. Thus we still do not know how much of whose debt has been re-scheduled, that is, deferred for payment last year and the year before last, nor how. Nor a great many other things. In a session of the Serbian Assembly (and not just that assembly) the material in this area was even marked confidential 3 weeks ago (not to mention the time before that). And that, of course is nothing special and specific to Serbia.

It is difficult to say, then, how much the various debtors owe today. But it is known for certain that all of us together are deep in debt. And that a rather high payment will be the future even of our children's children.

It is also common knowledge that the Slovenian rate of indebtedness, for instance, is the lowest in the country (since the inflow of foreign exchange is in relative terms the highest or the most favorable compared to the outflow). And that even Serbia is below the Yugoslav average with respect to the level of indebtedness, though on the basis of short-term credits it is the deepest in debt of the parts of Yugoslavia.

#### Before It Is Late

We also know that Montenegro's debt is 2.7-fold higher than the national average. Last year the share of that republic's payments in the total inflow of foreign exchange was more than 70 percent, and it even represented about 90 percent in trade with the advanced countries. The economy of Macedonia is burdened with debtor obligations that are not as great, but neither are they much less. This year, for instance, it plans to receive a total of about \$282 million from exports of goods and services, while \$242 million will come due for payment. Mainly in the convertible area. Which means that 86 percent of the money representing the income in foreign exchange will immediately go to repay the debt.

But what is the point of enumeration?

What is the point of repeating that many things are still not known? That no one yet has stated in public the real reason why the "cart rushed madly downhill" since 1976. Foreign exchange reserves at that time exceeded \$4 billion, and inflation was only 9 percent. Why is it that the opportunity for the dinar to become convertible was let slip at that time, and why since that time has the standard of living floated steadily downward faster and faster so that today it has reached its level of 20 years ago? Why is that 6 years ago the governor of the National Bank of Yugoslavia publicly denied the semipublic (and well-founded) warning from the federal secretary for finance that the country was facing a "financial collapse," which would occur if there were no changes in the legislation and practice that were allowing excessive indebtedness. And excessive expenditure. And bad, unproductive and inefficient investment of both domestic money and foreign credits.

All of this should be responded to openly and with facts and figures as soon as possible. Not because of past sins and sinners, but because of the lesson for the present and for the future.

But it is still more important and urgent for science, and we are referring to that science which is truly professional, objective and "independent" of daily politics, to say its word not only on why the mistakes were made, when, by whom and to what extent in building "Feni," Obrovac, "Dina" and a host of others--mistaken investment projects which have been officially named very reluctantly and very tardily--but also about some which do not yet qualify, but might. Those whose future is greatly doubted by "those others," although they have "their own" in which they continue to invest billions of dinars and millions of dollars. It would not be good for it to be said in a few years that another \$6 billion or \$7 billion was "thrown away" on the Smederevo or Titograd Combines, on "Feroniki" in Kosovo, on the gas pipelines in Sarajevo or anyone's heavy chemical industry, as this is now being said of projects like "Feni" which are already well known and "acknowledged."

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YUGOSLAVIA

DATA ON BANKING OPERATIONS, JANUARY-SEPTEMBER 1984

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 4 Jan 85 p 6

[Unsigned article: "High Degree of Agreement with Projected Trends Achieved"]

[Text] Did credit-monetary policy in 1984 ensure the conditions for a revival of production, increase economic activity, slow domestic demand and the rate of inflation, stimulate economic trade with other countries, and alleviate the illiquidity of the economy and the banks? These and many other questions have been posed almost regularly during the past year when the periodic accounts of banking and other financial organizations were analyzed. The same thing was also done after the expiration of the 3rd quarter of 1984. The Social Accounting Service [SDK] of Yugoslavia, on the basis of aggregate data from the periodic accounts and the data of the National Bank of Yugoslavia, examined in detail the formation and investment of the funds of the banking and other financial organizations.

Although the economic trends from January to the end of September were partially in accordance with the projections, positive tendencies were achieved in key sectors of economic policy. Industrial production was increased, domestic demand on the whole was reduced, and positive tendencies were also shown within the balance of payments. Likewise, the trends in the monetary-credit area mostly occurred within the planned framework. It was planned that the money supply would be increased by 38.5 percent, and the net domestic activity of the banks by 17.7 percent (not counting the effects of the changes in the exchange rate of the dinar), and as part of this, that the total bank investments would be increased by 23 percent, dinar investments by 26.5 percent and foreign exchange investments by 11.08 percent. From January to the end of September 1984, the money supply was increased by 27.5 percent in comparison with December 1983, net domestic assets by 7.6 percent, and total investments by 16.8 percent. Dinar investments were at the maximum possible level of growth, while foreign exchange investments were increased considerably more than planned. Accordingly, the SDK's assessment is that in the monetary-credit area, the trends realized conformed closely to those that had been projected, not only with respect to the money supply, the net domestic assets, and the investments by the banks, but also with respect to the economic trends achieved, which was not the case in previous years.

With these tendencies manifested in monetary-credit and economic trends, the sources of funds and investments by banks and other financial institutions were increased by 56 percent in comparison with September 1983 (admittedly, this increase was somewhat more moderate than the one achieved in 1983). Furthermore, the previous structural relations were retained. Deposits, with a 43.6 percent share, remained the main source of funds, with a more rapid growth in dinar deposits occurring during the period January-September 1983. Thus, in terms of the growth rate achieved, they approached foreign exchange deposits, in contrast to previous years, when foreign exchange deposits grew considerably more quickly. The same tendencies and structural relations were also retained in investments, since half of the total investments and funds of the banks and other financial organizations were related to credits.

In regard to the liquidity of the banks, viewed overall, one can say of last year that it was considerably more favorable than 1984 and previous years. This situation in the liquidity of the banks was brought about by a significant increase in the funds in transfer accounts, which were 189 percent larger than in September 1983. At the same time, there was a more pronounced reduction in the utilization of secondary liquidity funds, so that the feeding of transfer accounts with these funds was reduced both absolutely and relatively. In September 1984 alone, additional liquidity funds amounted to an average of 7.7 billion (compared to 12.8 billion in the same month in 1983), which caused a multiple increase in net liquid funds.

The incomes and outlays from the functional operation of banks and other financial organizations show fairly high growth rates. This was determined mostly by the more rapid growth rate of active and passive interest, under the influence of the increase in their rates in May and June 1984.

The sources of funds for banks and financial organizations were characterized during 1984 by somewhat more moderate trends than a year before. Thus, at the end of September, for example, the total funds formed amounted to 8.548 billion dinars, i.e. 3,055 billion or 56 percent more than in the same period in 1983. At the same time, with respect to the structure, there was a continuation of trends in which long-term funds are growing more rapidly than short-term ones, with short-term operating funds still constituting more than half of the total available sources. In September 1984, short-term funds were increased by 54 percent in comparison with the same month in 1983, while long-term funds grew 5 percent faster, but this growth rate in the long-term part was more moderate compared to the trends a year before. A certain relative slackening in the growth of long-term sources was manifested primarily in foreign exchange long-term sources. In spite of this, however, these funds maintained a high percentage of growth (an index of 177 percent), considerably above the growth rate of the dinar long-term sources, whose development was fundamentally influenced by the continuing growth in the exchange rates for foreign currencies. Under the predominant influence of this factor, the total foreign exchange funds, both short-term and long-term, were

increased by 63 percent in comparison with 1983, so that they constitute 45.3 percent of the overall sources of funds. Dinar funds, with a 52.7 percent share, are still the more significant portion, more than three quarters of which was formed within the framework of short-term sources.

In the structure of the overall sources, deposited funds and credits are the most significant ways to create funds (a third of the potential of the banks and financial organizations, in which deposits, with a 43.6 percent share, retained the dominant position). The largest portion of the dinar deposits (40 percent) is composed of funds primarily from the area of the economy. The increase in deposits on demand (an index of 108 percent) was influenced mainly by the modest increase in savings deposits on demand of dinar origin (they amounted to 211 billion--an index of 109 percent). Citizens' savings deposits in foreign exchange, which amounted to 1,166 billion, showed a 20 percent more intensive growth than dinar deposits (an index of 152 percent), but at the same time this growth rate was considerably more moderate than in 1983. On the whole, savings deposits by citizens (in dinars and foreign exchange) reached the amount of 1,535 billion by the end of the 9th month of 1984, which means that within a year citizens' savings had increased by 490 billion, or 47 percent. The share of savings deposits by citizens in the business potential of banks and financial organizations was slightly reduced (by 1.1 percent) in comparison with September 1983, since their relative growth was also somewhat more moderate (an index of 147) than a year before (an index of 172).

In the first 9 months of 1984, the trends in investments were generally in accordance with established policy. Of the total of investments and funds, 4,646 billion, or 54.4 percent, relates to investments. In the term structure of investments, the short-term growth is slower (an index of 143) than long-term investments (an index of 144), which is the opposite of the trends manifested at the end of September 1983. Certainly, these trends were partially influenced by the conversions of certain short-term credits to long-term ones. Within the framework of investments, the most dynamic growth was in pooled funds (77 percent), followed by credits (44 percent), with the slowest being in securities (29 percent). Of the 8,548 billion in total investments and funds, 4.290 billion, or 50.2 percent, relates to credits.

As for the utilization of credits, it should be stressed that the economy used more than three fourths of the total credits. The credits for the economy amounted to 3,280 billion dinars (short-term ones 1,111 billion, and long-term ones 2,169 billion). Of the total amount of credits, the economy used 1,606 billion for working capital. As before, the financing of working capital was extremely dissimilar among areas of the economy. The major portion of the credits was used by industry, followed by trade and agriculture. The most dynamic growth was in credits for transportation, and the lowest in credits for handicrafts.

The financing of purposes from the selective program, for which 345 billion was planned, showed a growth in the third quarter of 14 billion more than the planned level. It is felt that the 1984 business year ended with a total amount of credits for selective purposes of 1,097 billion, or 51 percent more than at the end of December 1983 (at the end of September these credits amounted to 867 billion). Most of these funds were used to create market commodity reserves.

[Boxed insert]

#### 24 Billion Dinars for Personal Incomes

In the working communities of the banks and other financial organizations, 75,603 workers were employed at the end of September 1984, which is 4 percent more than in the same period in 1983.

The dynamic growth of the financial results achieved, which was shown at the beginning of 1984, was also maintained in the working communities of the banks and other financial organizations at the end of the 9-month period. Specifically, there was a considerably more rapid increase, in both resolute and relative terms, in total receipts, income, and net income than in 1983. Thus total receipts, which amounted to 32 billion, were 48 percent higher, and this is 20 percent higher than the growth rate in the 9-month period in 1983. Income also had the same percentage of growth, and as a whole it was almost identical to total receipts, since the material expenses and amortization are not settled from the compensation funds for these working communities, but are instead charged to the receipts from their functional operation. The 28 billion in net income also shows a growth 4 percent more rapid than total receipts and income. As in the past, most of it is going for personal incomes, which amount to 24 billion, of which net personal incomes constitute more than two thirds, 71 percent. There was 17 billion allocated for them, or 51 percent more; 17 billion, or 51 percent more, was allocated for taxes and contributions; and the remaining 7 billion was allocated for taxes and contributions from personal incomes.

The part of the net income for joint consumption amounts to 4 billion, which is an increase of 40 percent in comparison with 1983. Employment in the working communities of the banks and other financial organizations has been growing at the same rate for years now, 4 percent. At the end of September 1984, 75,603 workers were employed in the working communities. The most dynamic relative increase in the number employed, compared to 1983, was in the working communities of the internal banks, and the most moderate one was in the national banks. The highest absolute number, however, was reached in the basic banks, in which the number of workers increased by 1,665 in a year (this constitutes two thirds of the total growth). The average personal income of those employed grew, however, much more rapidly than in the same period in 1983. This was made possible by the large increase, 50 percent, in the size of the personal incomes paid. The average personal income for the 9 months was 24,448 dinars, or 44 percent more than the average for the same period in 1983.

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YUGOSLAVIA

BANK INCOME, OUTLAYS IN 9 MONTHS OF 1984

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 4 Jan 85 p 6

[Unsigned article: " Absolute and Relative Increase in Income and Outlays"]

[Text] The trends in the financial results of banks and other financial organizations at the end of the first 9 months of 1984, show that the income achieved and outlays in functional operation retained approximately the same level as in 1983, and high growth rates, but with a more pronounced growth of income than of outlays. Thus, overall income increased by 99 percent, and amounts to 678 billion, while the 632 billion in outlays showed a growth 9 percent lower than income, which means that the joint income was several times higher than in 1983.

In addition to an increase in the sources of funds and investments, the size and growth rate of the financial results were also significantly influenced by interest (active and passive), which has a predominant share in the structure of the income and outlays of the banks. Likewise, in the last few years active and passive interest have showed a significant increase, which was governed to a considerable extent by higher rates (there were two increases in interest rates before the end of the 9th month of 1984, on 1 April and 1 July). All of these changes were aimed at increasing interest rates for 3-month term deposits. As a result of the growth in interest rates for deposits there were new active interest rates on investments by the banks. The first increase by the National Bank of Yugoslavia was made on 1 July, when the general discount rate grew from 30 to 34 percent, and for selective credits, from 21 to 25 percent. It is understandable that this trend in interest rates during the first 3 quarters of 1984 also brought about a significant increase in income and outlays. Business banks (internal, basic, and associated) were paid income amounting to 422 billion for active interest, which is 99 percent more than a year ago. Three quarters of this has to do with the amount of interest collected from organizations of associated labor in the economy, which over a period of one year grew from 151 to 313 billion, i.e. by 107 percent. Thus, the share of this interest in the total amount increased from 71 to 74 percent.

The outlays for passive interest were 92 percent higher than one year before, and amounted to 381 billion. The organizations of associated labor in the economy were paid 55 billion, which shows that these organizations paid 258 billion more for interest on credits than they received for their deposited funds. In comparison with the 1983 period, interest expenses in the organizations of the economy, as the largest users of credits, grew by 111 percent. This naturally was to influence the increase in their overall operating expenses. In connection with this, it was realistic to expect a reduction in these organizations' demand for credits because of the growth of interest rates. The level of credits given to organizations from the economy was 48 percent higher, however, and this rate grew more dynamically than in 1983.

Exchange rate differences also had a fundamental effect on the increase in the volume and growth rate of financial results. According to the Law on Total Income, the positive exchange rate differences form part of the banks' total income, and at the end of the 9-month period in 1984 they amounted to 32 billion (they were 10 percent higher), while the 59 billion in negative ones (outlay by the banks) was twice as large as in 1983, and considerably larger than the positive exchange rate differences.

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YUGOSLAVIA

TANJUG REPORTS ON ECONOMIC CRIME IN MONTENEGRO

LD160003 Belgrade TANJUG Domestic Service in Serbo-Croatian 1925 GMT 15 Mar 85

[Summary] Titograd, 15 Mar (TANJUG)--The number of perpetrators of economic crimes doubled in Montenegro in the past 5 years. Last year alone, 2,606 persons, who inflicted about 200 million dinars worth of damage on society, were charged. This was stated by Bozidar Vuksanovic, republican public prosecutor, at a session today at the Montenegrin LC Central Committee Presidium with the most responsible communists in republican organs.

Vuksanovic said that prevention organs, particularly in work organizations, did not fulfill their legal and social obligation of protecting social property. Vuksanovic also said that society, due to merely symbolic punishments and fines, was unable to fight with repressive measures alone against perpetrators of economic crimes.

Last year, for instance, of all those sentenced for these crimes, 32 percent received suspended sentences. He believes this figure to be too high. Furthermore, of the 2,011 persons sentenced, the courts did in no case confiscate property or pronounce security measures. In the words of Slobodan Simovic, vice president of the Montenegrin Assembly, the delegate system in all environments must become the main front of the struggle for the protection of social property. He noted that there were delegates at the Montenegrin Assembly who had not said a single word on any issue for 3 years. Savo Sekaric believes that attacks on social property should be treated as hostile acts, and that judiciary organs should carry out the investigative procedure more efficiently. In his words, LC organizations should immediately take measures of ideopolitical responsibility toward all members who had in any way whatsoever attacked social property. In his view, it is impermissible to wait for the final outcome of the court procedure and then take political measures against perpetrators.

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YUGOSLAVIA

BRIEFS

**SUGAR, CORN IMPORTS**--At a meeting of the SFRY Assembly Istvan Berald, in answer to a delegate's question about surplus sugar and possibilities for exporting, said: "Deliveries of sugar from sugar mills up to October 1984 were insufficient. At the request of certain republics and provinces, funds for importing sugar were increased by \$10 million and 270,000 tons were imported. Because of large sugar reserves [now], amounting to about 463,000 tons, permission was granted to export about 70,000 tons, while the directorate for commodity reserves has bought up a total of 173,000 tons. In regard to corn, Berald said that since February 1984 corn exports have been limited and the [state] purchase price specified. The Federal Executive Council has approved imports of 100,000 tons of corn and 100,000 tons of livestock sorghum in order to help meet animal feed needs of farmers. Last year 1,687,000 tons of corn was harvested, but the [state] purchase price was reduced 40 percent to 27 dinars per kilogram. To import protein animal feed this year \$20 million has been made available, in addition to \$30 million for the import of soybeans. [Excerpts] [Belgrade BORBA in Serbo-Croatian 15 Mar 85 p 3]

**PRIVATE, OTHER WEALTH**--In our country there are 1,420 private shops, 30,000 workers officially working for private construction businesses, 18,000 private lodging and eating facilities, and 60,000 truck owners who account for 40 percent of total traffic on our roads, yet we often say that we do not know who are our wealthy people. This was stated by Vinko Oreski, president of the commission for petitions and complaints in the SFRY Assembly, in discussing social differences... When the standard of living is falling for most of the population, one must not permit the spreading of a wealthy stratum [of society]. He said about 25,000 workers in administration also earn very nice salaries, thanks not only to their privileges but also to deals with private [business] persons. Of course, included in this stratum are singers and soccer players. [Excerpt] [Belgrade BORBA in Serbo-Croatian 8 Mar 85 p 3]

**FUND FOR UNDEVELOPED AREAS**--Last year 79,725,000,000 dinars of the 97.38 trillion dinars planned for developing the undeveloped areas through the Fund of the Federation, were invested, i.e., 81.9 percent. Funds of the obligatory loan [within the Fund] amounted to 60,428,000,000 dinars which is above the plan; while the part [of the Fund] earmarked for pooling of labor and resources was unfavorable, amounting to only 45.1 percent of the planned amount. At a meeting of the Fund Assembly it was noted that the practice continued also last year of inadequate linking of income of associated labor between developed



republics and inadequately developed areas. Attempts by specialized services of the Fund to get from republics and provinces all data on the movement of funds needed to assess the volume and quality of pooling have remained without success. Only Kosovo reported the payments to this province in the last 4 years (of the 48.71 trillion dinars planned for pooling, only 11,603,000, or 23.8 percent, had been invested). [Excerpt] [Belgrade BORBA in Serbo-Croatian 7 Mar 85 p 12]

AGRICULTURAL PROBLEMS--Poor weather, which has shortened the best planting period for sugar beets by 10 days, and worsened economic conditions have led into question the successful planting work on about 5 million hectares. Unlike past years when the biggest problem was the lack of certain reproduction materials, this spring the farmers' problem is high prices. While production costs are spiraling there is not much room, even under the conditions of free formation of prices, for most agricultural and food products to be increased in price; because the purchasing power of the population is markedly reduced, as is the possibility to sell higher priced agricultural products on foreign markets. Last year the price of such products increased 45 percent, while the price of machinery increased 63 percent, of herbicides, pesticides, and other chemical materials 67 percent, and the price of fuel and lubricants increased 60 percent. In 1980 100 kilograms of KAN [calcium, ammonium nitrate] fertilizer cost the equivalent of 50.8 kilograms of wheat, while in 1984 100 kilograms cost the equivalent of 74.5 kilograms of wheat, and similar tendencies are continuing this year. As a result, it is feared that farmers will not orient themselves toward extensive production as planned. [Excerpt] [Belgrade PRIVREDNI PREGLED in Serbo-Croatian 21 Mar 85 p 12]

CHANGES IN FOREIGN EXCHANGE ALLOCATION--The percentage of funds allocated from hard currency earnings of OURs for the purpose of providing funds in so-called convertible "areas" to settle obligations abroad cannot exceed 5 percent. This is the most important of two changes in the law on convertible payments which the FEC proposed and forwarded on 18 March to the SFRY Assembly. According to the solution up to now, this percentage could not be less than 5 percent. The proposed change indirectly enables the FEC also to refuse to stipulate this OUR obligation, since the FEC is authorized to specify this percentage each year. This change makes it possible to adapt the amount of allocation to the needs every year and can also mean less of a "burden" to the economy as regards these obligations. The other proposed change is that the SFRY Assembly establish the exemptions from this obligation. [Excerpt] [Belgrade PRIVREDNI PREGLED in Serbo-Croatian 19 Mar 85 p 1]

LAW ON TRADE-PRODUCTION POOLING--Last week the Federal Executive Council changed part of the Law on Obligatory Pooling of Labor and Funds between Trade and Production Organizations, obligating the trade sector by the end of the year to have 20 percent of its total revenue based on cooperation with the production sector and each year thereafter up to 1992 an additional 5 percent of revenue based on such cooperation. This in some way abandons the obligation [up to now] of requiring a minimum of one-half of business operations to be "covered" by self-management agreements providing for permanent cooperation with production in wholesale and foreign trade organizations, and providing for sanctions and the closing of organizations which violate this regulation. However, the

General Market Association of Yugoslavia believes that not much has been hereby changed in the regulation which commodity trade has criticized since it was enacted. The obligation for self-management linking and associating continues. The trade sector expected that this regulation would be rescinded because the long delay [in applying the law], the method of forming income in trade organizations, the frequent lack of goods, and differing prices which have disrupted self-management linking with production clearly show that the law cannot be implemented. [Excerpt] [Belgrade PRIVREDNI PREGLED in Serbo-Croatian 23-25 Mar 85 p 12]

YUGOSLAV-TURKISH TRADE FIGURES--Belgrade, 19 Mar (TANJUG)--Yugoslav exports to Turkey reached nearly 48 million dollars [currency not specified] last year, which was double the figure recorded in 1983. At the same time, imports from Turkey rose by 9.4 percent and reached 23.3 million dollars, a meeting of the Yugoslav Chamber of Economic Section for Turkey has been told. It was also stated that additional efforts should be invested by the Yugoslav exporters to enhance the quality of goods, competitiveness of prices and delivery terms in order to maintain the upward trend in exports. [Text] [Belgrade TANJUG in English 0121 GMT 19 Mar 85 LD]

YUGOSLAV-JAPANESE REPAYMENT AGREEMENT--Belgrade, 20 Mar (TANJUG)--The Yugoslav and Japanese Governments signed here today an agreement on consolidating Yugoslavia's principal repayments to Japan. The agreement pertains to principal payments which have fallen due. Under the agreement, Yugoslavia will receive a credit of about three billion yen for refinancing its debt payments to Japan. [Text] [Belgrade TANJUG in English 1515 GMT 20 Mar 85 LD]

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